AGRI-FOOD
A LOOK AHEAD

PROCEEDINGS

of the

Ontario Agricultural Outlook Conference

October 28, 1987

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FOREWORD

The publication of the proceedings from the Agri-Food: A Look Ahead Conference is intended to communicate to a wide segment of the agri-food sector, the substance of discussion which took place October 27-28, 1987. It summarizes the comments of guest speakers and their responses to questions from the audience. It also contains the background paper, 'Agri-Food Outlook and Policy Review', prepared by the Economics and Policy Coordination Branch of the Ontario Ministry of Agriculture and Food for distribution at the Conference.

The theme of the Conference was "Competing in the Global Marketplace", featuring prominent speakers who focused on specific issues, trends, opportunities and problems, as seen from their individual perspectives in their respective fields.

The Conference was attended by a wide range of agriculturally-oriented groups - producers, farm associations, marketing boards, food processors, wholesalers, retailers, and trade associations, as well as legislators, bankers, investment dealers, academics, lobbyists and the media.

The problems, policies and strategies raised by the speakers alerted participants to the changing circumstances affecting their products, provided alternatives for addressing those challenges, and encouraged awareness and understanding of the viewpoints and positions of various segments of the agri-food sector. The wide range of delegates increased the scope of the discussions and provided agri-food decision makers with additional insights into the rapidly changing environment in which the industry operates.

The response of delegates indicated that the Conference achieved its purpose: to provide a forum for the interaction of the widely diverse groups that make up the agri-food sector, in order to increase awareness of different perspectives on issues facing the various segments of this important sector of the Ontario economy.

Future Conferences will have different themes, but each will continue this process of communication among the various segments of the agri-food community.

Additional copies of this publication can be obtained by writing to:

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Robert Latimer

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Ministry of Agriculture and Food
ONTARIO
Jack Riddell, Minister

WELCOME AND INTRODUCTION

JACK RIDDELL
Minister
Ontario Ministry of Agriculture and Food

When I opened this Conference for the first time as Minister of Agriculture and Food back in 1985, the theme was "Sellers in a Buyers Market". In describing the tone of the market back then, I borrowed from Charles Dickens and described it as the best of times, and the worst of times. I was optimistic about Ontario's ability to produce and remain competitive and saw opportunities for success through flexibility and adjustment. My optimism has been rewarded. Despite difficulties and competitive pressures, Ontario's agricultural performance is still strong, both nationally and internationally. Admittedly, however, this performance has not been as good as hoped.

Today we have come together under the theme of "Competing in the Global Marketplace". Considering the fast pace of this changing marketplace, I can say that these, too, are the best of times and the worst of times. Events of the two years since 1985, and indeed of the past few weeks (stock market collapse), make this meeting all the more timely and worthwhile. "Competing in the Global Marketplace" is not so much about graphs and statistics, as it is an opportunity for all of us to express and listen to different views on issues and challenges facing our agri-food industry.

The speakers we have assembled for this Conference represent the views of trade experts, the financial and retail sectors, the food processing industry, and of course, producers. Each, naturally, has its own concerns and approaches to the future. The common denominator is the continued success of Ontario's multi-billion dollar agri-food industry, during these rapidly changing times.

Having been involved in the industry all my life, I have seen a lot of changes, but as a member of the industry, and as a Minister, I know we are accustomed to challenges. This decade has seen substantial change in the economic and social forces. Our performance in the global economy depends on our continued ability to adjust, and compete on a sustainable resource base.

There are many forces impacting food production. Some have never before been experienced to the same extent. First among them are international programs. Research establishments in genetics and biotechnology are augmenting the programs in conventional crop and livestock improvement in the race to remain competitive in the world market.

In both developed and developing nations, agricultural schools and research institutes are receiving more attention and funding as a means of sustaining a viable agri-food industry. We are seeing computerization come to the farm, creating an information revolution in the industry, which will affect food production and handling, packaging, quality control and food delivery systems. As we all know, we have witnessed an increase in the number of nations, that were once agricultural importers, becoming exporters.

I am very pleased to see a heightened interest in preserving our agricultural lands through new practices in tillage and rotation, production systems that are not damaging to the environment, and the proper long-term management of our soil, water and energy resources.

Consumers around the globe have changed dramatically. An aging population, different lifestyle patterns, and increased consumer health awareness are creating demands for new products and production methods. Likewise, there has been an increased consumer concern with food safety, particularly with regard to preservative and pesticide use.

There are many other areas of change I could list, but my basic point is that all these technological, social and economic changes, and the way we respond to them, will affect Ontario's role in the global economy. The Government of Ontario has a good record of assisting the various sectors of the industry in the adjustment process.

Since 1985, we have increased the Ministry's spending on agricultural programs 72 percent, to $563 million, but rather than focusing on past achievements, we are looking at new initiatives to maintain our competitive edge. Our aim is to provide programs and services to address the areas of change I have mentioned, and to ensure our continued success.

I would like to take a moment to describe some of our more recent initiatives. In August of this year, I announced the Land Stewardship Program to protect our most valuable resource, our agricultural land. Over the years, we have seen increasing problems with crop germination, soil erosion and drainage because of soil degradation caused by modern farming practices. The Land Stewardship Program reflects our policy that farmers should be encouraged to adopt practices to improve and sustain our soil and water resources. Recognizing that farmers have been squeezed by low commodity prices, declining farm assets and high debt loads, we could not expect them to implement new practices without some financial support. Our three-year, $40 million program will help the farmers use alternate crop practices, upgrade equipment and increase management skills to improve their farming operations. This program complements our earlier initiatives in soil, water and environmental protection.

The preservation of these resources is also being addressed by a pesticide reduction program that will be developed in consultation with farm groups. Farmers today realize that the continued intensive use of pesticides is not the only approach to food production. They also realize that consumers are demanding high quality food that has been grown with environmentally sound practices. The challenge is to reduce pesticide use by 50 percent over the next 15 years, while at the same time maintaining crop yields, sustaining farms and continuing effective weed, insect, fungus and disease control. We are confident that this pesticide reduction program will have a positive effect on the industry, ensuring high quality food products for Ontario consumers and export markets. This will increase Ontario's agricultural competitiveness, while also protecting the environment, including water quality in rural areas.

Another important resource we are concerned about is farmers themselves. In 1900, one farmer fed 12 people. Today 90 people are fed by the same farmer. This is a record of productivity and adjustment that truly reflects the modernization of Canada's and Ontario's agriculture. Over the same period, the number of Ontario farms has decreased. The present economic buffeting is discouraging young people from taking up farming. Without new farmers there will be no future agriculture and food industry. It is our responsibility, as a government, to see that every potential farmer has an opportunity to make a future for themselves.

Our Farm-Start Program, which goes into effect this January, will provide new farmers with the cashflow that they need, during the first difficult years of farming. Farm-Start will give them a fighting chance against high capital requirements, fluctuating commodity prices, and the cost and availability of credit. Like many of our programs, it is an investment in the future. We have a reputation as the leading agricultural province, both in cash receipts and technology transfer, and we intend to keep it that way.

In order to remain a leader in Canadian agriculture, the Ministry of Agriculture and Food will be moving its offices to Guelph. The relocation will bring together the best talent from private industry, government and the university sector, enabling the creation of a centre of agricultural excellence. We aim to become the source of agri-food and veterinary research technology and management in North America, if not in the world. However, whatever program and services we put in place, they must serve a purpose. Like a jigsaw puzzle, each program is a separate piece that when put together creates a big picture. The picture we are after is competitiveness in the world market.

One large piece of this puzzle is now becoming a vastly important policy issue that will affect Ontario's agri-food industry. This is trade policy. Because of increasing global competition and rapidly changing events affecting the economy, it is extremely necessary to our security to develop and implement appropriate agricultural trade policies. For years, we have traded with the United States. They are our biggest export customers, and we, as Canadians, are their largest market. Although we have had disputes, we have enjoyed a relatively good relationship based on a kind of "gentlemen's agreement". Changes in the world economy, the abrupt unbalancing of U.S. trade and the resulting increased protectionism by our main trading partner, requires a response. It is clear that the profitability of the agriculture and food business in Canada can be easily undermined. As a result, the Government of Ontario has developed policies to ensure the safety of its own agri-food industry.

One of the biggest challenges of our trade policy today is the issue of enhancing and securing bilateral trade with the United States. The Government of Canada has signed a preliminary agreement. The Ontario Government is committed to acting in the best interest of our industry and very quickly. Given that commitment, we at the Ministry find it imperative that we meet with associations and members of the agri-food industry to hear all views on this vital issue.

Moreover, to emphasize this government's concern about the Agreement and its importance to the economy, I have been named to the Cabinet Sub-Committee, which is holding hearings on Free Trade. As many of you are aware, the Sub-Committee has held public meetings in Toronto, Hamilton, Windsor, Sudbury and Ottawa. Over the next weeks, meetings will continue in other locations around the province; Thunder Bay, St. Catharines, London and elsewhere. The intent of these sessions is to listen, examine the issues, and ensure that Ontario's objections to the proposed Agreement are understood. We want to make sure that all Ontarians are better acquainted with the present Agreement.

I would like to take this opportunity to clear away some of the smoke created by the media, in terms of Ontario's position on the Agreement thus far. The Government of Ontario is not against improved trading relations with the United States. Ontario is fully aware of the importance of this market to our economy and to our agriculture and food industries, but it is the cost of obtaining improvements in this relationship that concerns us. As the Preliminary U.S./Canada Agreement stands, the Premier has indicated that it is not in Canada's or this province's best interest. The benefits and costs of this Agreement appear to be mixed.

Last Tuesday, I met with a group of Ontario processors to hear their views and concerns on the Agreement. While I must tell you that there was general optimism about the Agreement, it was obvious there are many doubts about its full impact. We are operating with many unknowns. While much of the final economic analysis must await the exact legal text of the Agreement, it will also depend on what other actions the Government of Canada will take to implement the Agreement and to alter those policies that are presumed to inhibit the ability of the agriculture and food sector to adjust. We must ensure the

economic and social survival of the agriculture and food industry in this province. We want to be able to say, "this is what the agriculture and food industry of Ontario wants and does not want".

The economic survival of our industry will also be affected by the ongoing multilateral trade negotiations. Canada will now take a proactive approach to the upcoming General Agreement on Tariff and Trade meetings, to solve the global problem of trade-distorting subsidies and policies. Farm subsidies are only one solution to an excessive supply problem, and they have grown to become a monstrous expense for many countries. So Canada, along with other agricultural nations, is looking to the upcoming GATT meetings to restore some sanity in the marketplace. It is a difficult time, but it is a challenging time. Developments are occurring daily that reinforce the need for appropriate economic policies and safeguards. The major stock market disruption last week reminds us just how fragile the world economy can be, and how dependent we are on it.

However, Ontario's position and our prospects are not entirely dependent on international trade; not all the competitive pressures we face are international. There are interprovincial ones that can be just as significant. As much as we need policies to compete with other nations, we also need policies that keep our own house in order. In the past, a major hindrance to Canada's success in the global marketplace has been competition between provinces. Some provinces have been reluctant to discuss the artificial competitive advantages provided by production subsidies. This type of economic rivalry is damaging in terms of national unity and long-term economic survival. Given the intensity of other nations vying for their spot in the marketplace, a sustainable agriculture industry in Canada cannot exist, if we are unable to come to terms within this country.

I am glad to say that a national agriculture strategy was approved at the First Ministers' Conference last November. This is the beginning of a national effort to improve the economic and social climate for the agricultural industry in Canada. In the conclusion of "A National Agriculture Strategy" there is a paragraph which sums up the future of the agriculture and food industry and it reads as follows:

The agriculture and food sector continues to be a significant contributor to the nation's economic and social well-being. The sector faces serious threats, but its resilience and underlying strength suggests that the Canadian agriculture and food industry will rebound. This positive assessment requires Federal and Provincial Governments, urban and rural citizens, and private and public sectors to recognize the sector's interdependency within the overall economy, as well as the need to formulate flexible policies to meet future challenges and opportunities.1

I believe the Ontario agriculture and food industry is ready for these challenges and opportunities. In this province, we produce more than we can hope to sell to our small domestic market. We must be competitive in a global market. We cannot do so without proper policies to encourage a long-term approach to our natural resource base, to our customers and to all the people involved in this industry. Everyone of us in this industry, from producer to economic analyst, has a job to do. With cooperation and a shared goal, I know we can succeed in the arena of global economics.

1 A National Agriculture Strategy, submitted by the Ministers responsible for agriculture to the Annual Conference of First Ministers, Vancouver, British Columbia, November 20-21, 1986.

BIOGRAPHY

JACK RIDDELL

Jack Riddell was appointed Minister of Agriculture and Food by Premier David Peterson on June 26, 1985. He was first elected to the Ontario Legislature as the Member for the riding of Huron-Middlesex in a by-election on March 15, 1973. He won re-election as a member for Huron on September 10, 1987.

A graduate of the Ontario Agricultural College at the University of Guelph, Mr. Riddell has a strong background in agriculture. He has extensive experience as a sheep and cattle producer, and owns a 200 acre cash crop farm in Huron County. In addition, he has provided services to farmers as an assistant agricultural representative of OMAF and has taught agriculture at the secondary school level.

Mr. Riddell was recently appointed a member of the Cabinet Sub-Committee studying the proposed bilateral trade agreement between Canada and the U.S.

GLOBAL AND CANADIAN ECONOMIC OUTLOOK

DIAN COHEN
Partner
Cohen Couture Associates

On October 19th, also known as Black Monday, economic reality took a sudden turn. Stock markets around the world dropped 20-25 percent in value, while record volumes were traded. The boom in the stock market came to a sudden halt.

It is hard to forecast these days. We do know, that all of the traditional forecasts made before October 19th need to be re-evaluated. The Conference Board's forecast for the Canadian economy, and indeed a forecast that applied generally to the industrial world, was an approximate 2.0 to 2.5 percent growth. There were some indications that economic growth was slowing. In fact, during the past six to ten months, forecasters have been surprised that growth continued at higher than expected rates. Perhaps the historical expansion that was experienced in North America and in other parts of the world was going to come to an end.

National averages are mythical. We all know that if we could remove the little strip that lies between Windsor and Ottawa and includes Montreal, our national average statistics would be very different. Unemployment would be many percentage points higher, and economic growth would be some percentage points lower. What I am suggesting to you is that we have had a marvelous five or six year recovery and it has been unbelievably spotty. It is my opinion that what has happened in the stock market, the destruction of wealth, the fallout that has now moved to both the commodity markets and the devaluation of the American dollar against most other currencies, has to be factored into any short-term forecast. What I am going to do this morning is tell you how I would read what is happening.

It is my belief that some of the fallout from the stock market, even if it is not going to impact the economy drastically, will move into consumer and investor spending and there will be some negative impact in terms of growth, probably within the short-term forecasting period of a year. I will be happy to give you some guidelines and come back, in the question period, to what a rapid devaluation of the American dollar may mean to all of us. The factor to be considered over a one-year period is the damage that has been done to consumer and investor confidence, and where we might look for solutions.

The global economy is in a state of transition for many reasons. Technological change has meant that production processes have to be adapted accordingly. The development of heavy manufacturing, competition in newly industrialized countries, development of light manufacturing into intensive manufacturing in less developed countries, and the newly industrializing countries has been responded to by Canadians.

Exchange rate instability has been around for a long time. Theoretically, the exchange rate is there to equalize budget and trade deficits. It does not seem to work that way, as some countries know how to adapt much faster than other countries. By way of example, the 1985 Plaza Accord was supposed to send the yen up sharply, and stop the Japanese miracle, meaning that Americans and presumably Canadians would be able to export much more, and the Japanese much less, but it has not happened. The Japanese had a bad year in 1986, they are having a fine 1987. They have adapted with remarkable quickness to a yen that has appreciated approximately 70 percent against the American dollar. They are making profits if the yen is a 120 yen to the dollar. It is now about 138, and last week it was 144.

Jack Riddell suggested the need for a new agricultural strategy. What has happened with that? I do not know the answer, but it has not been newsworthy, and a year is a long time to wait. The Minister has also correctly pointed out that Canada produces more agricultural products than can possibly be consumed. We are still dealing with a national agriculture policy that was put in place 20 years ago, when it appeared that the world needed what we had to sell. Twenty years is a long time, but it is quite clear that for the last several years there have been many sellers and no buyers. It may have taken place over a much longer period than what we have seen in the stock market, but the effect is essentially the same and it needs to be reacted to.

We have to cope and deal with deregulation, global integration and protectionism, which may or may not last in terms of the United States. For the last seven years, the Americans have dealt with their own budget deficit, basically by borrowing other peoples' savings to pick up their shortfall. What the market is saying now is that it will push down the value of the U.S. currency until the Americans deal directly with the deficit, by cutting spending at home.

I do not have a conclusion to this unfolding story, but the Canadian economy needed restructuring and rethinking in policy terms before the free trade initiative. The free trade initiative is going to be neither the salvation nor the destruction of the economy. Indeed, when I think about the whole free trade discussion it appalls me, because what we are looking at in a free trade initiative is basically an answer for "is this an easy way to get more value-added jobs, not more jobs but more value-added jobs". It has always seemed to

me that a starting point for a small country that produces far more than it can consume is to have secure access to its biggest export market.

Q. How sustainable is an expansionary monetary policy in the U.S. at this time?

A. In my opinion, it is the correct short-term response to a crisis situation. The last thing any of us want at this point is to have investment houses applying for protection under Chapter 11 of the American Bankruptcy Reorganization Act. Basically, the industrialized countries have told the market makers not to worry about buying right now as they are going to supply you with money to borrow. That is a good thing to do but it is not a permanent option. If money is pushed into the economy for a protracted period of time, more than six months or so, we can expect inflation. Cooperation on the fiscal side is needed. The Americans cannot deal with their twin deficits by themselves.

The answer to the American trade deficit is first of all to deal with the budget deficit, because that is what caused it originally. One solution is to have a recession in the United States. The other is that other countries can contrive to have their economies grow faster than the American economy so that there is more incentive for them to want American goods.

The short answer to the question is that such direction has to come within the next couple of months. It may be precipitated by a devaluation of the American dollar to the tune of 15 or 20 percent, which will certainly not help the two economies that need stimulation at the moment, but it will make them expand within five or six months. We are looking for instability in the next six month period.

Q. Based on the events of the past two weeks, is a Free Trade Agreement more or less essential, in your opinion?

A. I dislike what has happened in the public discussion about free trade. First of all, nothing is free. Secondly, there is no such thing in the short-medium term as a win-win situation. There have to be losers, but our response seems to be that if there are losers we should not sign the Agreement. It seems to me that if we substitute for free trade the words technological change, we will have a better handle on why we want this initiative. Technological change is not something we can stop. We can stop a free trade initiative. In a world that is increasingly dividing into huge trading blocks, it makes sense to have secure access to our biggest customer. With secure access, we will have a less painful adjustment to the restructuring of the global economy.

BIOGRAPHY

DIAN COHEN

Dian Cohen is a partner in Cohen Couture Associates, an economic communications consulting firm which specializes in the analysis and dissemination of financial, business and economic information.

Ms. Cohen is the Financial Editor of CTV News, and appears twice daily on Canada AM. She also writes a syndicated newspaper column both on personal money management and on economic policy.

She was appointed to the Economic Council of Canada in 1985, and is a member of its Executive Committee. She is also Chairman of the Council's Advisory Committee on Trade Policy Options and Structural Adjustment in Canada.

BILATERAL TRADE: OPPORTUNITIES AND CHALLENGES IN THE AGRI-FOOD SECTOR

ALAN RUGMAN
Professor
Faculty of Management Studies
University of Toronto

When I accepted the invitation to give this speech last June, I wrote the "yes" speech. When Simon Reisman suspended the free trade negotiations in September, I wrote the "no" speech, and when I listened to Jack Riddell give his presentation this morning I realized that I should have written the "maybe" speech. Having said that, I will give the "yes" speech, because, as an economist, I think we should analyze the Trade Agreement as it now stands in those terms.

This is a classic Bilateral Trade Agreement, in which both tariff and non-tariff barriers to trade are reduced. Canada is therefore a winner in this Agreement, and there are no reservations to be made in that statement. The Prime Minister has managed to deliver what may prove to be the most important trade package in Canada's economic history.

Ontario is the wealthiest province in Canada, and the conditions put forward by the agricultural sector of Ontario to the Government of Canada for consideration in the trade negotiations have been safeguarded.

The Trade Agreement, as the title of this talk suggests, provides opportunities as well as challenges. In terms of the opportunities, the government has delivered access to the world's largest market, and there is no ambiguity in the extent to which secure access has been achieved. The alternative, failure in the trade talks, failure in the face of increasing global protectionism, failure in the face of the lead nation, the United States, would have resulted in the introduction of administered protectionism. This Agreement goes against the global protectionist trends of the last few years. Exporters, therefore, should be able to respond to the new opportunities.

The United States is a vast market, so firms should now be able to enjoy more efficient production from greater economies of scale. Anything related to scale economies will provide Canadian firms, and Canadian food processors, with the opportunities to produce world class products. In many areas in the large U.S market there are numerous niches to be found, so virtually every exporting firm can expect to find opportunities to succeed in these various niches. Whichever way you cut it, the opportunities have been delivered.

The second point is that the agricultural sector demanded protection through the continuation of marketing boards. Well, the marketing boards will be maintained. One of the Premier's six conditions was met, and there is again no ambiguity in the manner in which it was met. The Provincial and Federal Marketing Boards are not part of the Trade Agreement, they can never be part of a Trade Agreement and that structure is retained. Some of my colleagues in the economics profession think that is rather unfortunate, but your representation was listened to by the public sector consultative mechanisms, the ITEC, of which I am a member, the sectoral advisory groups, and the politics that dictated that that course be followed. In addition, in order to make the marketing boards effective, even though tariffs were abolished, quotas were retained. Therefore, there is no danger of the marketing boards becoming ineffective through lack of protection against imports; they are safeguarded through the quotas.

Therefore, my first point, is that basically this is a good deal for the agricultural sector, but more importantly I think that although we are sitting in this room as representatives of one provincial group, we should remember that this is a good deal for Canada, and it is an equally good deal for the other provinces which are not represented in this room today. It is a better deal for the west and for the east than it is for central Canada. These regions are even more dependent upon trade. For the last seven years I was at Dalhousie University as Director of their International Business Centre, and I can assure you that the people in your industry in that region, and the people in the fishing industry stand to benefit from this Trade Agreement, and they realize that. Furthermore, this group which has gathered today reflects both producer and consumer interests. We should remember that the 25-26 million consumers of this country are the biggest winners in this trade deal.

It was not clear when this Conference was being organized how the Agreement would work in terms of U.S. trade law procedures. With this Agreement however, the economics of countervail and anti-dumping become incredibly simple. That is to say if we in Canada export a product and if a U.S. rival firm can convince the American Government that our product is being subsidized, then they are going to win a countervail or anti-dumping action. A problem, however, arises when we stop to consider how subsidies are defined. In previous work, I have shown some points which are well known to most people

working in this field that there is a bias in the current system of U.S. trade law, and indeed this is one of the major reasons behind the free trade negotiations. The bias occurs when a farmer in the United States in the raspberry business, or producing carnation flowers, or pork products, wants to secure whatever competitive advantage he can when faced with competition from Canada he would use the U.S. legal system. The legal system allows him to file countervailing and anti-dumping actions. While the law is technically consistent in broad details with the GATT subsidies code, the way the law has been administered in the last six years has led to a bias which has occurred at two levels.

At the first level, the investigation of material injury done by the U.S. International Trade Commission, because they are done under pressure of time, often results in what an economist would call an unscientific judgment being rendered. There have been 50 countervailing and anti-dumping cases against Canada of which 70 percent of the preliminary decisions by the ITC were positive, including about one third of the final decisions. I investigated some of these cases and found that the analysis used was in many cases quite superficial. Indeed, one could advance the thesis that the system is not a purely technical or quasi-judicial system as it is suppose to be, but one which is increasingly subject to political pressure.

The second level is that of investigation by the U.S. Commerce Department which is required by law to assess subsidies and therefore assess the countervailing or anti-dumping duty to be imposed. In so doing, we find that the system was politicized, the proof being found in the Softwood Lumber case.

What the Government of Canada has achieved in the trade negotiations is a process which may change that. Unfortunately, the Government of Canada did not sweep this away with the stroke of a pen. We did not get exemption from U.S. trade laws, but we did make progress. When the Trade Agreement becomes effective on January 1, 1989, Canada will be better off than any other nation in the world in dealing with the United States.

The major problem in present U.S. trade law is that investigations are made only into the subsidies paid to foreigners. Having made the earlier statement about marketing boards, I do not want to be on the podium today saying that marketing boards involve a subsidy to Canadian agriculture. What I do want to say is that whatever we have in Canada, the Americans have too. The American agriculture sector is clearly subsidized, however, only the subsidies paid in Canada are evaluated. The law requires only that the defendant's subsidies be investigated. The law precludes the plaintiff's subsidies from being investigated. Clearly, if we have subsidies, and the Americans have subsidies, we would like to map them out. That would be the economic solution to the issue. We did not achieve that in the trade negotiations. I would now argue that we could never achieve that because sovereignty demands that each nation will have its own laws and each nation will conduct its own investigations.

We can do the same thing in Canada. We had a countervail against U.S. corn. Perhaps we should have more countervails against U.S. agricultural products coming into Canada? In general, what the Government of Canada has delivered in the Trade Agreement is an appeals procedure under which a bi-national panel will be set up, which will consist of two Canadians, two Americans, and a neutral Chairman, or a Chairman selected by the other panel members. The major qualification the Trade Negotiations Office asks of the people who will serve on the panel is that they do not have a law degree.

The panel will be called at the government level, so there is an immediate problem if you are an individual producer or industrial producer, namely, how do you get the Government of Canada to file the appeal? You have to go through the normal routes I assume, and make this into a broader issue. That is what your industry associations are for. There may be some side legislation which gives private parties rights of appeal which would force the departments to respond. If the preliminary decision is against you, then that is the time to get the bi-national appeal body set up. While you are doing that, make sure you hire a good lawyer who puts on record every single piece of information you have about your industry, and also about the American firm that is countervailing you. What we have achieved, you see, is a judicial review that only allows the facts of law to be reviewed. However, given that this will be a bi-national panel, and given that the decision of the ITC and the Department of Commerce are often arbitrary, if not in fact capricious, a good lawyer on appeal will demand that the information on record be reviewed. Notice that I did not say the word evidence. Simon Reisman has used the word evidence and basically I accept his point that when the full text is revealed, the evidence will be reviewed by the bi-national tribunal. Even if the word evidence does not appear in the final transcripts, a good lawyer can insist that you would have a chance of winning the case by getting information about the subsidies being paid to the plaintiff reviewed.

In addition to having to hire a lawyer, you will have to hire some economists and trade experts, who can come up with some quick studies showing that the firm that is countervailing you is also the recipient of some subsidies within their system. This information will have to be filed. Anything which is not filed cannot be reviewed by the appeal body. The procedure is, to some extent, complex. It is not a clean exemption from U.S. trade law, but there is a mechanism in place which would allow a bi-national appeal body the opportunity to overturn cases like Softwood Lumber, and the potash cases, and the possibility to render a different verdict than that delivered by the Court of International Trade on the Live Swine and Pork case.

Because this mechanism will be in place, most people expect that the use of the countervail/anti-dumping procedures by Americans will drop off, and that the Americans will become less aggressive in using that method. I think we have an opportunity here, not

just of gaining access to the U.S. market, but of actually changing the outcome of the U.S. legal system. It is not a perfect solution, but I think that the abuses of U.S. trade law may now largely be overcome.

I will conclude by remarking on one of Mr. Riddell's comments. If I understood him correctly, he said that in the past agricultural relations with the U.S. had been based on a kind of "gentlemen's agreement". I do not own a farm and I am not in this business, but I would have thought that if I were in this business it would be nicer to have a formal agreement through a trade treaty. Under a trade treaty, I could make sensible investment decisions rather than have a gentlemen's agreement when my compatriots in the United States are not playing by the spirit of that agreement.

I was very interested in Professor Rugman's comments with regard to countervail. It seems to me that the proponents of the Free Trade Agreement, to use their own words, have tried to sell the Agreement on the basis that Canada was seeking exemption from U.S. countervail actions and they have pointed to the Cedar Shakes and Softwood Lumber cases as examples of unfair treatment under U.S. trade law. Now, we find in the proposed Agreement that we have not been exempted, as you indicated, and that in fact what is now a long, complicated, and expensive process is actually going to be longer, more complicated, and more expensive in that we will still be subject to U.S. trade law and countervail action, but as you indicated we will now have a review process which will review U.S. law and its application. My question: Is it not likely that although U.S. firms will be less likely to use countervail action because of the process which is suggested in the Agreement, that Canadian firms, if they are faced with this long, complicated, and very expensive process which could take two to three years, will in fact be willing to move their operations to the U.S. in order not to have to pay a countervail duty over a three-year period with no assurance that it will be removed after they have gone through the process?

In the preamble to the question, a lot of things are correct and a lot of things are wrong. You are right that it would be an expensive process. You are wrong that it will take longer. The transcript of the Preliminary Agreement says that if you go through the four stages of the current U.S. process, which will remain the same, you will eventually arrive at an appeal mechanism, which is unique and has deadlines. The total appeal mechanism takes less than one year. I am not an expert on what is happening on live swine and pork, but this case occurred several years ago and I read some press reports recently that the process at the Court of International Trade is still going on.

The important point, however, is that the decision may be different in the end. The bi-national tribunal has the power, and its decisions are binding, to change the decision if it was not justified by the evidence, and it can do that if you make sure that there is good information which looks at the details of the industry's structure. Ultimately, we will need to have some cases to see how it will work in practice, but if you analyze it logically, this is a significant change in the escalating trend of protectionism.

If for some reason we want to commit economic suicide and not approve the Bilateral Trade Agreement, then what would be the situation facing Canadian agriculture and other industries? The alternative to a complete failure of the trade talks would have been greater outflows of Canadian investment, and that would have been no problem for our larger firms. The effect on our multi-nationals and larger food processing firms would have been largely neutral, with or without a Trade Agreement. It would be the effect on small businesses, producers, and farmers that would be devastating in that case.

I would like to address the question of the producer subsidy equivalent system, and whether it is your understanding that the development of this system is quite advanced, and whether there is some level of agreement among the countries involved in the upcoming GATT negotiations that this will be the system that will be refined and used to try to isolate the cost of all the subsidy programs. In this Agreement with the U.S., it is a factor insofar as the Wheat Board is to lose its right to issue import control licences when we have reached this equivalency of support between the U.S. and Canada, and this is projected to be taking place in barley and oats for instance, when this Agreement comes into place in January 1989. We do not have the details of this, but I think it is only logical to expect that what we have seen out of the GATT negotiations, is that the producer subsidy equivalent does not put a value on the maintenance of a supply management system in Canada.

The Canadian Federation of Agriculture has voiced the concern that this system is not fair because there is no system to try to put a value on the efforts that some countries go to, to control their supply and not dump on world markets and further depress prices. The Canadian Federation of Agriculture believes that only one side of the ledger is being kept in this producer subsidy equivalent system, yet Canada is about to get into it with the U.S. Free Trade Agreement, while to my knowledge, producer groups do not have a full understanding of exactly what this includes from municipal tax regimes, to the delivery of subsidized water to the mid-west. We do not know what is in there and that is cause for concern. I do not see why that system, if it is being put in place for grains right now, would not spill over into the supply managed commodities.

I think I agree with much of that. Let us just back up and define the problem of subsidies. In

Canada, we have internal transfer payments, like unemployment insurance and medicare, acts of social policy. There is no Trade Agreement that says those things can be countervailed. A problem does arise with generally available internal transfer payments which are not targeting export subsidies, which were never meant to be countervailed, and legally should not be countervailed. The problem is in the administration of U.S. trade laws when, because our industries are so involved in trade, we have 25 percent of our goods exported, the Americans have a much lower component of their economy involved in trade.

Inevitably, a lot of our industries get caught up in these countervail and anti-dumping actions, and some of these internal transfer payments are identified. One of the cases I studied, the Fresh Atlantic Fish case, has 85 programs listed, including the unemployment insurance program. Through some convoluted logic you could say that fishermen are getting a kind of subsidy during the winter months, when the harbours are frozen and they cannot fish anyway. Just listening to that idea was, and is, an insult to any Canadian. Although judgment was reserved in the preliminary hearing, the ITC did throw that notion out in the final hearing. The issue that you are raising is that the definition of subsidy has been broadened through this administrative practice. No longer is it clearly an export subsidy which can be countervailed. A lot of what goes on in Canada is also potentially countervailable. That is why I said in my talk that the bi-national appeal mechanism is a breakthrough because, hopefully, the two Canadians on the panel can explain the difference between an export subsidy and an internal transfer payment within Canada. If they cannot explain it, and convince the other members of the panel, I am afraid nobody can.

What we want in this Bilateral Trade Agreement is to make sure that the best things that we have received from GATT are not lost. This is the official policy of the Government of Canada, which views the Bilateral and the Multilateral Trade Agreements in the same way. They have the same Trade Negotiations Office handling both of them. Sylvia Ostry works with Simon Reisman on this, and so these details should be worked out as a unit, and I am personally convinced that they will be.

BIOGRAPHY

ALAN M. RUGMAN

Alan M. Rugman is Professor of International Business at the University of Toronto. Previously, Dr. Rugman was Professor and Director of the Centre for International Business Studies at Dalhousie University. He has taught economics at the University of Winnipeg and international finance at Concordia University, Montreal. He has been a visiting professor at Columbia Business School, London Business School, Harvard University, and the University of Hawaii.

Born in England in 1945, Dr. Rugman came to Canada in 1968 and became a Canadian citizen in 1973. He earned his B.A. from Leeds University in 1966, his M.Sc. from London University in 1967 and his Ph.D from Simon Fraser University in 1974.

Professor Rugman has published numerous articles and books dealing with the financial, economic and managerial aspects of multinational enterprises.

MULTILATERAL TRADE: WHERE WE'VE BEEN, WHERE WE'RE GOING

ROBERT LATIMER
Special Trade Policy Advisor
Office of the Premier

Where We've Been, Where We're Going. This is a big subject and what I propose to discuss, in the GATT context, is how it relates to agricultural trade.

We are embarking on the substantive phase of this new round of multilateral trade negotiations called the Uruguay Round. According to the timetable, the negotiations are to be completed by the end of 1990. By the end of 1987, countries are asked to submit their proposals for negotiations with respect to agriculture. The United States has already called for the complete removal of all agricultural subsidies to be phased out over a ten year period, as well as a phase-out of all import barriers.

Canada, in a somewhat more temperate approach, has called for a more equitable balance of rights and obligations among GATT members, a major reduction in trade-distorting subsidies, and a major improvement in market access, with the ultimate goal of eliminating all trade distorting subsidies, and all access barriers over a period to be negotiated.

The Canadian proposition is not quite as much of a fundamentalist approach as the American one. Canada seems to be prepared to allow for flexibility in the choice of policy instruments when considering some kind of measure of the trade distorting effect of various changes in policies. This measure would then be the basis of negotiating trade liberalization in agriculture.

The European Economic Community, which in many respects is perceived as the culprit, has gone along with the mood of the Punta del Este Declaration that launched these negotiations. They have recognized the need for negotiations to reduce the uncertainty, imbalances and instability in world agricultural markets. The key incentive for this is that their support system has generated burdens and surpluses, and placed intolerable financial pressures on their treasuries.

However, at the same time, the EC has been more hesitant and seems anxious to ensure that any negotiations on agriculture should be seen as part of an overall trade deal. No early harvest, thank you. In addition, as a first step, the European Economic Community is calling for minimum export prices for sugar, sorghum and dairy products. That is one way of reducing the cost of export subsidies. However, it does not really come to grips with the basic question of access to their market, or the trade-distorting effect of their export subsidies. Japan, the other major player in the game, has a number of sensitive and vulnerable sectors and has been hiding in the leaves, as is her traditional posture.

These are the general perceptions of the work advanced so far in Geneva. I have talked to you about the launch pad. Against all that background, there have been cries of gloom and doom. The European Economic Community has been shifting from a net importer, to a large exporter of a number of agricultural products, supported by high levels of protection and massive export subsidy programs. The U.S. has, in turn, responded with a rich war chest, otherwise known as the Export Enhancement Program.

Canada and other agricultural countries are caught in the crossfire. There is a disposition in some quarters to write off the GATT as an effective instrument for dealing with agricultural trade. The distance between the present international trading environment in agriculture, and the dramatic nature of the U.S. proposals in particular can give rise to a good deal of skepticism as to how serious they might be and how far we can get in the negotiations.

It is important to note that the starting point is the GATT. When you look at how the GATT trading system developed, it was recognized over time that special accommodation had to be made for agriculture in the application of international trade rules. Accordingly, exceptions were provided from the general rules against the use of quantitative restrictions in order to allow for supply-management programs. The move towards the prohibition of export subsidies did not apply to primary agricultural products. Finally, the general exceptions to the GATT rules, to allow for international commodity stabilization agreements were designed with primary agricultural products such as wheat, sugar and coffee in mind.

Over time, the United States did not find the exception for supply-management adequate to accommodate their subsequently legislated Agricultural Stabilization Act. Accordingly, they demanded special accommodation through a waiver from the GATT obligations - and they got it.

The European Economic Community, when establishing the Common Agricultural Policy, devised a fairly comprehensive protective system based on variable import levies. Since the GATT did not preclude the wide application of import levies as long as tariffs were not bound, such a scheme was not envisaged at the time the GATT was being worked out. The eventual outcome was to severely impair the spirit and objectives of the GATT, but in a sense, the specific GATT provisions essentially allowed for it.

I would like to turn my comments to the world of commodity agreements. At the beginning there was

something called ICICA or Interim Coordinating for International Commodity Arrangements. Over the years, the responsibility for the work under ICICA has been shifted exclusively to the UNCTAD, United Nations Commission on Trade and Development. This has changed the focus of international commodity agreement discussions. The focus has shifted away from stabilization agreements designed to even out price fluctuations, without interfering with the overall balancing of supply and demand. Rather, the thrust has been toward a device for income transfer, and price support systems for the developing countries.

The result has been a serious breakdown of commodity agreements as effective instruments of stabilization. I do not believe there is one effective international commodity agreement in place at the moment. You have all kinds of committees that are managing the agreements but there are no substantive provisions of supply-demand price fixing.

My next point concerns the role of agricultural specialists in the GATT process. Because of the recognition that in some respects there is a need for special accommodation for agricultural trade, there has been a trend towards leaving agricultural trade negotiations to agricultural experts. This has resulted in an even greater tendency to seek exceptions from the general trade rules for agricultural trade. Agricultural experts around the world all understand each other's problems very well. Their approach is affected by their terms of reference. It makes a big difference if your perspective stops at the farm gate or covers the food processing sector as well. Unfortunately, many ministers of agriculture stop at the farm gate.

I would like to talk about some of the basic issues in these multilateral trade negotiations. The first concerns the instruments of border protection and the other is the issue of subsidies. I will have to give you a little bit of GATTology in order to get at these subjects. The issues are: 1) whether we are contemplating a major revision of the GATT, which could mean the elimination of quantitative restrictions and relying on the protection of tariffs; or 2) whether the objective is to reaffirm and strengthen the GATT rules and force agricultural policies to adjust accordingly.

As I have suggested, the GATT has as its premise the principle of comparative advantage, that is, if each of us does what we do best and trade freely we will all be better off. It implies a win-win game.

As a general principle, quantitative restrictions are not appropriate instruments of protectionism without severing the GATT. However, as I have also said there is a recognition of the need for exceptions to allow for supply management. My question is, does the recent United States' proposal remove all barriers and subsidies over a ten year period? Does their proposal contemplate the removal of their agricultural waiver? I really do not know. With respect to the Canadian proposal, it also moves down the road to removal. It seems to contemplate flexibility in the instruments of protection, as long as you get a handle on the overall level of protection. In this, there is a danger of throwing away whatever trade rules you have, even if they are wanted more in the breach, before you have something better to put in their place.

With respect to subsidies, the second major issue, the thrust of the GATT is to prohibit the use of subsidies on export trade. However, the provisions allow for exceptions for "primary products", which is defined as "any farm product in its natural form that has undergone such processing as is customarily required to prepare it for marketing in substantial volume in international trade".

The GATT code on subsidies and countervail, which emerged from the Tokyo round of trade negotiations, goes on to spell out the constraints on export subsidies for primary products, specifically in terms of restrictions on subsidies that result in more than an "equitable" share of world trade. That is what the Americans and the EC are fighting about. It is not surprising that the rules covering agricultural subsidies promise to be one of the most contentious issues in the forthcoming negotiations. Definitions of what constitutes a subsidy need to be more precise. These should include the degree of processing that would make a product ineligible for classification as a primary product, and define what an equitable share is. In the meantime, we are faced with the rather serious problem of how to get a handle on the damage to our trading interest from the U.S./EC subsidy war.

I would like to address some of the signals from the U.S./Canada Bilateral Trade Agreement, in terms of what might lie down the road in the multilateral negotiations. First, the U.S. is clearly determined to play hardball with respect to export subsidies. While they are prepared to take into consideration the Canadian trade interests in regard to markets under their export enhancement program, they have not, in the Bilateral Agreement been prepared to seriously constrain their hands. It is merely a declaration of best intentions.

Second, the details of the technical calculation of equivalent support levels in determining when and whether we can remove the Wheat Board Act's import licencing control on wheat, barley and oats should give some indication of how Canada's approach in the multilateral negotiations may take shape.

Third, presumably, the agreement not to offer direct export subsidies on bilateral agricultural trade is a reflection of the seriousness of their approach calling for the abolition of agricultural export subsidies on a multilateral basis.

Fourth, the Canadian agreement to increase import quotas for poultry and eggs, now permitted under Article 11 of the GATT, suggests these quotas may also be open for negotiations in the MTN.

Fifth, the absence of any real move on U.S. agricultural restrictions, aside from giving a little bit on sugar containing products, and the preservation of rights under the GATT both by Canada and the United States, may suggest that the U.S. waiver and supply management controls are still the key areas to address when considering the American proposition of

removing all barriers to trade. However, the basic standoff on dairy products in the bilateral negotiations suggests that not much is expected in this area.

I have focused on the trade measures and I should also mention some of the other things that are coming down that track, for instance, health and quality standards. In the bilateral negotiations, I think the discussions have been helpful and constructive and there were no problems in terms of agreeing on the desirability of addressing technical barriers to trade. When you move multilaterally, it may be more difficult.

In the Bilateral Agreement on intellectual property, they have decided to defer the issues to the multilateral negotiations and work together. Here there are two perspectives: the supplier and creator of intellectual property, which tends to be the bigger guy; and the perspective of the country which is a user of intellectual property. The whole argument in terms of compulsory licensing on patents between Canada and the U.S. reflects that user/owner issue. This may or may not be fundamental, but you are going to find more user interests in a multilateral round than you are in a Canada/U.S. bilateral.

The bilateral negotiations on services were easy. It is largely untilled land. They have arrived at some general principles and some grandfathering of whatever we do now. The complexities of issues relating to governmental regulations affecting trade-in services uncovered in the bilateral negotiations are likely to be considerably added to in a multilateral tilling of this subject. However, it is going to be as difficult as it was in the Canada/U.S. bilateral negotiations.

Finally, there is the issue of federal/provincial relationships in the context of multilateral negotiations. The same reasons that lead to an attempt at establishing an intimate consultative mechanism between the Federal Government and the Provincial Government on the bilateral negotiations apply in the multilateral negotiations. It is part of the recognition that industrial and agricultural strategy policies have to be consistent with trade policies and vice versa. Therefore, that interrelationship is recognized. If the federal negotiations are moving into areas of jurisdiction in services, subsidies and quality control standards, you need the provinces in that game. We are going to see a continuation of this federal/provincial working relationship, for better or for worse.

That is my general outline. I have not really drawn any conclusions. Moreover, I have suggested that there is a lot to play for in the multilateral negotiations. My skepticism about the starting positions of both the U.S. and Canada should not be taken to reflect any lack of appreciation on the part of the Federal Government regarding the complexities and difficulties faced. You have to start somewhere, and you have to have faith.

The struggle between protectionism and trade liberalization has been described as something like riding a bicycle. If you are not moving forward you will fall over. It is that pursuit of international cooperation, that prevents people from going to war with each other. You have to keep trying.

Q. Professor Rugman spoke about PSE's and you have thrown out the new term "equivalent support levels". Is the Canadian GATT proposal introducing a slightly different terminology than the PSE?. Is Canada trying to find the middle ground on this PSE definition?

A. I was simply adding another dimension - the idea is that you get some instrument to measure subsidy levels. The Wheat Board issue is a producer supply level equivalent. The subsidy system is the other one. There is a need for an index that will measure the total level of protectionism. Subsidies can be a protective instrument. Frankly, if you asked me to say what is in the PSE and what is not in it, I do not know. I am suggesting that we will find out when the bilateral negotiations are completed in detail and see then whether or not, in those negotiations, they actually indicate what is to be covered and what is not to be covered in measuring the equivalent support levels.

Q. Could you give us a comment as to whether you agree with Professor Rugman's view that the dispute settlement mechanism offers an excellent opportunity to review and overturn U.S. countervailing action or anti-dumping actions?

A. The kind of proposition I have is that we were looking for a real degree of security against the use of U.S. trade remedy law. It was said, at the beginning of the bilateral talks, that one was going to somehow get behind U.S. anti-dumping and countervailing law, and that would be the degree of security that you would have. Well we do not have that degree of security in this Agreement. What we have got in the proposal is the security that industry, in five or seven years, may be able to negotiate some rules. In the meantime, we are going to have each country apply its own laws, and as I understand it, you are going to have, in terms of countervail and anti-dumping, a bilateral dispute settlement mechanism. This would replace judicial review. It would still give the individual his right to appeal against findings of the U.S. Commerce Department and the U.S. International Trade Commission. You would not stop the countervail or the dumping going on. It would be there, but you would have the opportunity of taking it to the Panel. The authority of that panel would not be to change or modify U.S. law. The area of debate, which I do not know the precise answer to, is whether or not the Panel could receive additional evidence, or whether all it could do was review the evidence that was taken into account by the International Trade Commission and by the U.S. Commerce Department.

Remember, you are not changing U.S. law, you are trying to keep it a little more honest. It is a plus, but is it an adequate plus? Not in terms of what we thought we wanted to get.

BIOGRAPHY

ROBERT E. LATIMER

Mr. Latimer graduated in Political Science from the University of Toronto in 1950, after serving with the Royal Canadian Air Force from 1942 to 1945. He joined the Federal Department of Trade and Commerce in 1950, and has specialized in the field of international trade and trade relations, including participation in a variety of international negotiations and conferences on trade and economic issues.

From 1968 to 1970, he served as Minister Counsellor (Economic) at the Canadian High Commission in London. He served as Chairman of the International Sugar Council in 1970.

In the reorganization of government, January 1982, Mr. Latimer was appointed Assistant Deputy Minister, Area Trade Relations with the Department of External Affairs. A further reorganization within the Department of External Affairs in September 1983, resulted in Mr. Latimer being appointed Assistant Deputy Minister, Economic and Trade Policy.

In October of 1985, Ontario Premier David Peterson appointed Mr. Latimer as the Special Trade Policy Adviser for the bilateral trade negotiations with the United States, and the next round of the multilateral trade negotiations.

RESPONDING TO COMPETITIVE FORCES: THE CHANGING RETAIL MARKETPLACE

GERALD DOUCET
Principal
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It is very difficult to cover all of the waterfront in a 20 minute period, when what is hanging over us, in terms of the global marketplace is this Canada/U.S. Free Trade deal. We really must begin to stand up and make our positions clear on this kind of issue. I want to be clear with you right from the beginning, as being someone who speaks from the retail point of view but who has also travelled across Canada, on the producers' side with a Royal Commission of Inquiry into Beef and Veal Marketing for a number of months. In the late 1970's, this was one of the most exhilarating experiences of my career, in terms of public hearings and contacts with the agricultural community across Canada. It was exhilarating to work in Ottawa, trying to come up, during the Liberal years, with something called a Food Strategy for Canada, which was not an easy job and in a lot of people's views was a failure, but nonetheless was attempted.

I want to be clear about where I stand on the free trade deal. I think, as I look at the details that it's good, not only for Canada, from the broadest perspective of all of our industries, but for the Canadian agriculture and food system. I do not say that as a Tory, I ran for the Liberal Party in one of the elections, so I am not speaking as a Tory who may have been one of the authors or participants in Mr. Mulroney's agenda on this item.

I do not speak as a Western Canadian, born in British Columbia or an Ontario businessman who has worked here for most of his career. I think this deal is good for Ontario as well as other regions of the country, and I will explain why later, from a retailer's perspective.

Finally, I think it is important to stress what we have in this particular Canada/U.S. Trade Agreement, despite all of the problems with Mr. Mulroney's approach (and I think there were a lot of problems in terms of the perspective he gave to it; and the point of view of sharing information with you, me, Provincial Governments and so on). The bottom line, from my point of view, is comparing this deal with what we would have otherwise, not the status quo. From these perspectives, I will be very quick and I will touch upon the highlights of my arguments, and in the question period you may pursue them.

In my view, this Canada/U.S. Trade Agreement, is a deal that preserves maximum flexibility for agricultural policy in Canada. That to me is fundamentally important.

Secondly, in my view, more for agriculture and food than anywhere else in that agreement, we paid something to actually get something. I do not think that if the automobile people were here today they could say that. Perhaps the energy people cannot say that either. From the perspective of the food system, I think we paid something to get something real.

Finally, there are a number of uncertainties about the deal which we cannot debate here today. Tomorrow, a number of us in this room are going to a meeting in Ottawa with the Sectoral Advisory Group to look at issues such as rules of origin. We need information about the trans-shipment of products through the U.S. to Canada or vice-versa, and the rules that will apply. For the wheat producers, we still do not know how the end use certificates will be drafted.

A very big issue for the processors and the industry as a whole is the two-priced wheat agreement. Is it being eliminated? The question is whether to replace the two-priced wheat system with a better one that is more reliable as we move to a more equal subsidy-free system with the United States.

I know Terry Daynard, later today, is going to be talking to you from his perspective about another great uncertainty - the sugar issue and the definition of sweeteners versus sugar. We still have some question marks, but I am confident that those things will be worked out in the course of the coming weeks. I did not mention technical standards, and whether or not we are moving to their technical standards or are they moving to ours. I can think of a number of areas where I would not want to move towards theirs. The issue on technical standards is whether or not politics on either side of the border should play a role in an essentially scientific or technical judgment on a specific health or sanitary problem? In my view, the bottom line is that politics should be out of it.

We have a Canada/U.S. trade deal that I think is good for Canada, agriculture and Ontario. We have basically preserved maximum flexibility in terms of marketing board systems in Canada, and the extension of those marketing boards to other kinds of commodities. For the food processor, you may have read remarks that were published yesterday in the Toronto Star. The claim is that the food processor will be faced with an impossible situation, where under the system of no tariffs they will be buying raw products at a higher price from Canadian suppliers. This is not a feasible outcome. Why? Because if you look at chickens and eggs, and even dairy, the number of products that are not, in fact, on the Import Control List (and therefore controlled in terms of total quantity coming into Canada), is a very small percentage of the

actual disappearance in this country. In the case of poultry - T.V. dinners and Chicken Kiev are not on the Import Control List, in the case of dairy - ice-cream and yogurt. The issue is that these items can be put on the Import Control List under this Agreement, under certain circumstances. It is the circumstances that I want to discuss, not the issue of whether Canada has that freedom.

Another very big issue is that there are still a number of food processors, particularly in sensitive areas like fruit and vegetables where, when we take down the fresh and the processed tariff, we really do not have a clue as to what the bottom line will be in terms of cost. Will the food processor in Canada be able to get products at a North American equivalent price? Keep in mind the Canadian dollar and transport charges, as well as the fact that a lot of fresh produce does not take kindly to being shipped long distances for processing. There again, in my view, looking at this Agreement, the safeguard provisions that have been negotiated specifically to this Agreement are better than the GATT safeguard that we would be facing without this Agreement.

First of all, on fruit and vegetables, we have a snap-back to the Most Favoured Nation (MFN) level. Under certain circumstances, without compensation to the United States, we can keep that (MFN) rate for a 20 year period during the adjustment. If we cannot adjust to the realities of the North American marketplace over that period, I think we have other problems in that particular sector. I do not deny that within specific industries and regions there will be significant adjustments and therefore we have got to get clear from Mr. Mulroney and his colleagues whether or not we are talking real, reliable, massive, or small adjustment.

The second aspect of safeguards that has not received a lot of attention, which matters to me as a retail representative, is that a large number of retailers, with the system we have now, go to another country and buy tonnes of tomato paste in retail packs. They do not go to the United States - the cheapest product is somewhere else. Under the free trade situation, with those tariffs gone, you have a situation where under some circumstances you may face surges of imported retail product to meet a specific need.

I am not worried about that for two reasons: (1) there is this new safeguard bilaterally negotiated involving the replacing of the MFN rate for three-year periods to compensate for those surges, under specific circumstances; and (2) I am here to tell you that the retailers have many stores in rural Canada or spread out across this country, for which they, just as well as the producer and the processor, want to see a viable and continuing employed workforce buying in their stores. As a result, the retailers in the changing marketplace are looking for ways to smooth out the adjustment towards this new reality of a Canada/U.S. trade deal, and to continue with their traditional relationships in terms of quality and price to the extent possible.

That is why I am saying to the people interviewing me on price, that the consumer price effects of this Agreement are going to be almost infinitesimal. They will be real, but very hard to pick up on a daily or yearly basis. As the tariffs come down one-tenth of a 17 percent tariff per year with an inflation rate of approximately four percent per year, if you are going to see anything, it is going to be a slowing down of the rate of growth of food prices, not large cuts in the prices to the consumer at the retail store level. Within that kind of stable phase-in period, I think the retailers and the suppliers will be working more closely together with producers to ensure continuing viability of large parts of the Canadian food business. In fact, I hesitate to say large parts because I believe the actual adjustments to specific commodities which may be directly affected and disappear, are going to be very rare indeed, and the exception.

We all know about the grape situation, sweet peppers and some sensitive products in the Niagara Belt. But, generally speaking, as I said in a Toronto Star interview yesterday, the beef, pork, sugar and flour-based processing industries - with two-priced wheat being replaced by a better system - a whole host of products of importance to Ontario and of importance to the country will benefit from the broader U.S. market. Retailers in Canada will be deepening their relationship with domestic and foreign suppliers in specific instances, but not to the exclusion or detriment of domestic suppliers.

My final remarks were put together before the free trade deal came out as I was convinced that with or without a free trade deal with the United States we needed to re-think Canada's food policies. I believe the more important issue before us as food partners in Canada is what is happening in the capital market today. Issues like the stock market upheaval, as Dian Cohen said this morning, is possibly an indicator of a more fundamental question. Issues such as tax reform will be more fundamental to our longer-term changing marketplace than this Canada/U.S. free trade deal. It seems to me that there is a certain unreality in our food policy formulation process right now. China is about to become a major exporter of grain, and the Canadian population in terms of rate of growth, is tapering off and the population is aging and resulting in significant shifts away from certain products.

First, I think there is a challenge for the food producer in our society to begin to become more involved in a direct way in broader policy linkages. What do I have in mind? Tax reform as I have already mentioned, but also the issue of social program reform, and whether Canada should have a guaranteed annual income system, which Michael Wilson is moving towards, matters greatly to the food producer. Michael Wilson is saying "I will tax food but I will credit lower income Canadians so they can buy it." Do we want that? I am not just challenging the producers but the processors and retailers in the food system to debate that issue.

The second major point is that as producers, pro-

cessors and retailers, we must work more closely together in trying to define a consensus or a common viewpoint on some of these broader strategies and issues facing the agricultural sector. In so doing, governments cannot continue to cherry pick among what producers want in their own group vs. processors or retailers. Governments have been masters at cherry picking, both within the group that makes up the producer community, and among processors and retailers. In my view, the Canada/U.S. Free Trade Agreement is saying that it's time it stopped; it's time we came to a consensus on a fresh approach to a food strategy for Canada.

Q. During your speech you indicated that it was incorrect to compare the trade deal with the status quo. Can you expand on that statement?

A. Frequently people are saying the free trade deal should be compared to the status quo. The status quo, in my view, is changing every day. The fact is, a number of Canadian food producers and even processors had Section 301 actions lined up against them in the United States. I think changes not just in U.S. protectionism but the whole issue of the changing nature of supply in our world with China becoming a net exporter of grain, and with the trends in population growth needs to be addressed. The whole range of developments are impinging on the types of products consumed and the ways in which they are distributed. Shouldn't we be looking at this Canada/U.S. trade deal in a broader context?

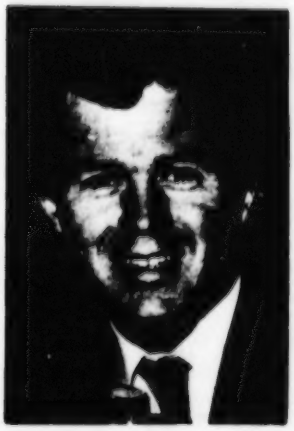
Q. Being on the Sectoral Advisory Group on International Trade (for agriculture and food and beverages), please describe the workings of this group.

A. When I was asked to join the Sectoral Advisory Group on International Trade for food related to the Canadian/U.S. Agreement and the multilateral negotiation, I did not think that it was going to work at all. There are thirty-seven individuals, and many people in this room today participate in it. I did not give it much chance at all, but it is really quite astounding how those thirty-seven people, who represent every conceivable part of the food system in Canada, as well as other regions, have come together. Usually, when we come together as retailers, processors and producers there is some incredible problem like farm credit, or some aspect of income stabilization, and there is really no time to have a genuine and honest exchange of views on what the alternatives are.

The kind of thing I have in mind is that this Sectoral Advisory Group system, which was established federally, could easily work provincially. I think that the Ontario Government would benefit from having that kind of formal structure. The largest problem the SAGIT faced in the last year on the Canada/U.S. Agreement was how the down-stream effects of supply management could be taken into account for processors who used supply managed products when we knew that tariffs were coming off. We gave the government three or four jointly approved approaches. They did not see the public light of day, but did influence the debate. I believe some kind of better focus and more permanent Sectoral Advisory Group working on these problems over a longer timeframe would be useful.

BIOGRAPHY

GERALD DOUCET



Gerald Doucet is a Principal of The Gloucester Organization Inc. He is also Vice Chairman of Ontario's Employers' Council on Workers' Compensation and, until recently, was Senior Vice-President of the Retail Council of Canada.

An economist by training, Mr. Doucet worked for the Federal Department of Industry, Trade and Commerce and other government agencies before joining the private sector to specialize in tax, trade and employment concerns. He was the principal author of "A Food Strategy for Canada" and served as Executive Secretary to the Commission of Inquiry into Beef and Veal Marketing. He is a founding member of the Business Task Force on Literacy, a member of the Board of Frontier College, and the Sectoral Advisory Group on International Trade (for agriculture, food and beverage).

TRADE INITIATIVES: INNOVATION AND RESTRUCTURING IN THE PROCESSING SECTOR

DAVID R. BEATTY
President
Weston Foods Limited

It is a great pleasure to be with you today, and to be part of the agri-business chain that is intensely competitive and becoming more so.

Everything may be fine with free trade as Gerald Doucet mentioned, but I am here with some misgivings. I feel that we do not know where we stand on free trade, and it would be nice to see some of the solutions recommended by the industry committees. These solutions will be important for my company, on the processing side of agri-business, as well as the producing and retailing sides.

The Free Trade Agreement has brought about new challenges and new worries to the agri-business industry. My talk will address some of the background and some of the structural changes that are occurring in the industry that I am gaining more experience with, namely Weston Foods.

The processing sector of the Ontario agri-food industry is in a state of enormous change. Technological changes throughout the world are throwing up new structures here in Ontario and profoundly altering the food processing landscape across Canada and the United States. Competition is intense as manufacturers challenge each other, as barriers to entry are low, as more and more substitutes and new products emerge, and as the retail marketplace continues to increase in competitiveness.

At Weston Foods, we are creating some of these changes and we are responding to some of them. We participate in four sectors:

1. Commercial bread through Weston Bakeries, founded in 1882.

2. Chocolate bars via Neilson's; makers of Crispy Crunch and Sweet Marie.

3. Biscuits via McCormicks and Paulins; makers of Stoned Wheat Thins and Champagne Crackers.

4. Fluid milk and ice cream through our dairy operations, branded Neilson's.

The structure and competitiveness of each of these sectors has changed dramatically in the last few years, and the ownership restructuring has not finished. In the remarks that follow, I will spend most of the time on bread, some time on the bar business, and end with a quick run at the biscuit business.

Let us first take a look at the commercial bread industry and the structure of competition within the industry. Michael Porter's model, from the Harvard Business School, is used to describe some of the characteristics used to determine whether one market or business is more competitive than another. The five characteristics examined in Porter's model are: potential entrants; the threat of new entrants; the bargaining power of buyers, (retail buyers for bread); substitutes; and finally suppliers.

Total bread consumption in North America (including Ontario) is flat to down modestly each year. The mix of consumption is changing dramatically. Varietal breads are becoming much more important in bread purchases at retail stores. Across Canada, the trends vary considerably. Quebec remains a large white bread market, while British Columbia represents a large varietal bread market. As varietal breads take an increasing market share away from white breads, the manufacturing economics change dramatically. The manufacturer who set himself up for long runs of white bread now finds himself in a situation where he has to change his lines four or five times in a shift, in order to produce the varieties that the consumer is demanding.

In the United States especially, many dedicated bakers have folded in the last five to ten years. Now we have an explosion of activity as a lot of new players have entered the market. These new, small specialty and local bakers are making crusted hearth breads, a different variety of bread not available to the large commercial baker.

Like the U.S., Canada has powerful buyers. Safeway and A&P have their own captive bakeries. Empress and Mother Parker respectively. In Canada 90 percent of retail buyers have in-store bakeries. This is direct competition for the commercial product. Private label growth, with emphasis at the retail level, is much stronger in Canada than in the U.S. Finally, the retailers are grouped together in powerful buying groups to ensure that they get the bread at the best possible price.

Specialty retail stores like Michel's Baquette and Mmmuffins have created a niche beside the more established names of Grandma Lee's and the donut chains like Tim Horton, Country Style and Robin's. There is a potentially new threat on the horizon in the form of a Japanese home bakery. I have not seen one of these yet, but apparently you throw the wheat seed in one end and four days later a loaf of fresh bread comes out the other. It is all magic to me, but it will not help the bread business.

The suppliers are all price takers in the commodities

they buy. As such, they do not exert a strong competitive influence in the commercial bread industry.

The conclusion is that the commercial bread business in Canada is extremely competitive.

Within this framework of competitive change, the large commercial bakers in Canada have been under considerable pressure to make their operations more flexible and efficient.

I am going to sweep across the country from east to west. Eastern Bakeries are the largest commercial bakers in the eastern provinces. Another large baker in the east, "Ben's", is 69 percent owned by Corporate Foods and 31 percent by the public.

In Quebec, Multimarques controls the dominant share of the bread market. Weston's operates in and around Montreal. No supermarket chain owns a bakery, and in-store operations are not yet as fully developed as they are in the rest of Canada.

In Ontario, Weston Bakeries bought the assets of General Bakeries in 1984. Corporate Foods competes in this market as does the A&P's captive bakery and a host of specialty bakers and in-store bakeries.

In the west, in-store bakeries are fully developed and home baking is still an important source of fresh bread. Weston Bakeries compete head-to-head with McGavins, wholly owned by Maple Leaf Mills and John Labatt's. In addition, Safeway, the largest western grocery retailer, has its own in-store bakery (Empress) which has, for the first time, bid on outside work. "Gay's", a Seattle owned bakery, is the first American bakery to be competing.

From a manufacturing and marketing point of view, bread is a local business. Success is often equated with a manufacturing presence in the served market. Local in-store promotions, coupons and competitions are more important than national advertising and marketing. From an ownership point of view, bread is beginning to become a global business. Hillsdown Holdings of England just purchased Maple Leaf Mills from Canadian Pacific. Labatt's is a North American player in milk, pasta, flour and beer. Weston Foods controls Weston Bakeries and owns a large bakery, Stroehmann Bakeries, in the northeastern United States.

In the United States, it is interesting that not one single baker in the top five is owned today by the same person who owned them five years ago. Campbell Taggart, the leading baker in the U.S. is now owned by Anheuser-Busch. Continental Baking, number two, is now owned by Ralston-Purina. Interstate Bakeries, which is number three, was just purchased privately through a leveraged buyout. American Bakeries, which is number four, is currently being sold after it went private two years ago through a leveraged buyout.

In each of these industries, there are some quite interesting differences. In the bread industry, local ownership and local market tastes, through in-store bakeries, specialty bakeries and private bakeries, are a strong, active and growing part of the business. There is a lot of regional activity as represented by Eastern Bakeries, Multi-Mart, Corporate and McGavin's. Nationally, we have some specialty retailers, and we have Weston Bakeries operating with national brands, although providing a significant twist according to the region, in which they are marketing.

The free trade problem that has been mentioned many times today - is the problem of the two-price system of wheat. I have heard, with great accuracy, exactly what is going to happen and I know you will all be interested. I spoke to another president of a large baking company and he assured me that next week the two-price system of wheat will be done away with. Direct subsidies will be put in their place. This morning, I telephoned the President of the American Baking Association, a gentleman that I have known personally for many years, and I asked him what was going to happen. He said all wheat board import processing quotas were going to be done away with next week and the two-price system was going to be left intact. So, it is apparent that the industry does not know what is going to happen.

When Mr. Clark says, in the House, that marketing boards are a sacred trust, that presents a problem for the bread processing industry and its 25,000 jobs. Marketing boards mean that the industry pays more for domestic wheat than the world price. In some areas, there is already free trade in packaged goods. With a large number of entry points into Canada from the U.S., American producers are gearing up to provide packaged bread for Canadians at a price between 45 cents and 75 cents a loaf. This represents a significant price change from current Canadian prices.

At present, we have two incompatible objectives. The timing and reconciliation of achieving these objectives is crucial for the 25,000 jobs in this sector. The domestic wheat price needs to be brought into line with the lower world prices. Tariffs and treatment of imported products crossing each country's border need to be dealt with through a consistent policy.

The Canadian consumer has had distinctly Canadian tastes in chocolate bars for over 100 years. They are more oriented to the milk chocolates of England and the Continent, and mixtures of peanuts, nougat and caramel coated with chocolate.

Using the same framework to measure competition indicates that the chocolate bar industry is also experiencing intense competition. Rowntree, MacIntosh, Mars and Hershey Lowney are all global players. Neilson's, an Ontario manufacturer, now stands alone as a Canadian player against the pack of multinational entries.

In terms of buyers, the market is incredibly fragmented. As a result, strong regional and national wholesalers are a crucial means of serving the market.

There are many substitutes for a chocolate bar. Essentially, substitutes include anything that you can think of as a snack. Recently, there has been a lot of difficulty in this particular segment of business with

the federal sales tax. It was imposed in a manner that skewed the tax strongly against chocolate bars. Typical chocolate bar prices rose 50 percent, from 40 cents in 1981 to 60 cents today. The latest budget changed the federal sales tax rules so that all snack foods are back on a level field. Nonetheless, there is a lot of ground to make up in the manufacturing of candy bars.

The industry has been faced with intense competition for over a decade as Hershey, Mars, Cadbury, Lowney, and Neilson all fight for market share in the face of falling consumer demand.

In the chocolate bar industry, multinational and global ownership caters to predominately national tastes. This is in direct contrast to the importance of local ownership and tastes in the bread industry.

Free trade may be of some assistance to the three players who manufacture in the United States - Mars, Hershey and Rowntree, as they will continue to be able to source their products, which are essentially "world" products, from the U.S. or Canada as they see fit. In fact, it was the favourable economics of foreign production that gave Mars its start in the Canadian market.

However, unlike the bread situation, there is no catastrophic maladjustment scenario caused by input prices unless we create a sugar price support system. Canada's bar preferences will continue to have a distinctly Canadian flavour.

The biscuit business is a hybrid in terms of taste and ownership. In terms of national taste preferences, there are strong Canadian and Ontario brands like Stoned Wheat Thins, Wagon Wheels, and President's Choice Chocolate Chips. The Culinar brands are very strong in Quebec, but there are also outstanding international brands like Oreos, Chips Ahoy and Carr's Water Biscuits that are widely accepted Canadian and Ontario favourites. Canadian biscuit tastes are both local (like bread), and global (like chocolate bars).

In terms of ownership structures, there are strong Canadian-controlled companies like Dare, Voortmans and McCormicks in Ontario, and Culinar in Quebec. There is also the public Canadian subsidiary of Nabisco, a strong international participant in the global market. Two of the most powerful retail chains, Safeway and A&P, have a strong private label cracker program with production in the United States, and many importers bring products from abroad. In the ownership sense, a strong mix of local and global companies make the biscuit market more closely resemble the bread industry structure than that of the chocolate bar.

In terms of competition, the biscuit business resembles the bread business. All in-store bakeries make cookies and cookie-type substitutes like cakes, muffins and danishes.

Local bakeries churn out fresh products, and specialty stores like Treats and Mrs. Fields sell their gourmet fares in many malls. In addition, chocolate bars, like Twix and Kit Kat, are readily available "cookie-like" substitutes; chips, nachos, and tortillas are all different ways to get the cheese dip into your mouth.

From a competitive standpoint, and perhaps most devastating, both Mom and Dad and often the kids bake their own cookies, either from a frozen mix or from scratch.

New entry appears easy. The introduction of President's Choice has been a tremendous success for Loblaws, and other companies - Proctor & Gamble, Keebler, and Pepperidge Farms - are all poised for entry.

There has been a dramatic change in the biscuit business over the last few years. Nabisco purchased Dads, Peak Freans, and David's Biscuits in 1982, and has entered into an agreement to purchase Interbake, Weston's Canadian biscuit subsidiary.

Meanwhile, Proctor and Gamble has taken a huge write-off in their soft cookie manufacturing equipment but it is still very much a part of Canadian grocery purchases.

The biscuit market, like the bread market, will remain a mix of local and global companies. With free trade, I would expect to see an increase in foreign competitors. The 'informal' barrier to trade was the fear that the Wheat Board would knock back any major flood of imports. With an Agreement in place, this informal barrier would be removed. Keebler, the number two player in the United States market, is considering entry into Canada. Keebler is owned by the U.K. giant, United Biscuits.

I would also expect the French yogurt maker, BSN (they make the famous Danone yogurt line), to enter Canada with their American subsidiary, Bury Lu. It is possible that BSN will purchase the third largest U.S. player now for sale, Sunshine Biscuits.

In the higher end of the market, the German firm, Bahlsen, will likely become a more aggressive player, and Campbell's Soup with its Pepperidge Farms products may well arrive. There is also a chance that Arnotts, the Australian company, with a 75 percent share "down under" will consider entry. At present, they are establishing a beach-head in Seattle. Vancouver is not far away and already imports a lot of bread.

The risks for Canadian and Ontario producers are the same for biscuits as for bread. Flour prices must be adjusted to world prices before the border can be completely opened.

Q Where is the health of the producing sector of the industry, if wheat is going to sell on a national level, and there is no two-price system?

A I am very inexperienced in the wheat industry, but certainly if the processing industry is to survive, and if that ten percent of the wheat crop that disappears into the bread business is going to be grown by Canadian wheat farmers, processors must be able to buy wheat at the same price as the U.S. This would

offset the U.S. producers' advantage of lower raw material costs and improve the Canadian industry's competitiveness. I think that the two-price wheat system has to go and, in my view, should be replaced with a front-end subsidy system. The indirect two-price system has been a regressive tax on the Canadian consumer and an invisible tax that can never be raised enough to provide Canadian wheat farmers with sufficient income in a market with large surpluses.

Q. In order to have this level playing field in both countries, do we not also need to equalize sugar prices, if we equalize wheat prices?

A. Yes. But equal sugar prices will not make much of a difference in the finished price of bread, because sugar is a much smaller component of the raw material price than flour. For cookies, the sugar content is higher and there would be more of a price effect.

BIOGRAPHY
DAVID R. BEATTY

Born in Toronto in 1942. Graduated in Economics from the University of Toronto (B.A.) 1965 with a Canadian Citizenship scholarship and Queen's College, Cambridge, England (M.A.) 1967 as a Nuffield Scholar.

Since 1985 he has been President of Weston Foods, a division of George Weston Limited, Canada's fourth largest company. Weston Foods is active in Canada and the United States in milling, baking, bread, dairy and chocolate. Mr. Beatty is a Director of George Weston Limited; a Director and Chairman of the Strategic Planning Committee pf Spar Aerospace Limited; A director of Scott's Hospitality Inc.; the controlling shareholder of Old Canada Investment Corporation Limited; and a member of the Premier's Council.

PRODUCERS IN THE CHANGING MARKETPLACE

BRIGID PYKE
President
Ontario Federation of Agriculture

It is my pleasure to attempt to contribute a producer's point of view to this 1987 Outlook Conference. It is timely to have a platform from which to discuss bilateral trade. The Mulroney Government's trade initiative may be one of the most profound forces for change in the agricultural industry. It is probably matched only by that other leap of faith by the Mulroney Government - tax reform.

Let there be no misunderstanding, Ontario farmers are traders. The exported value of agri-food products in 1977 was $700 million. In 1986, this had increased to over $2 billion, with 60 percent going into the U.S. market. However, Ontario is still a net importer of food products, importing $1.3 billion more in 1986 than we exported.

Accepting the conventional wisdom that our domestic market is too small to permit economies of scale, we constantly strive to increase exports. Canada, at close to 30 percent, has one of the highest ratios of exports to GNP among industrialized countries, surpassed only by West Germany at 32 percent. By way of comparison, the U.S. is at 10 percent and Japan is at 15 percent. The agri-food sector is second only to forestry in terms of its contribution to Canada's net balance of trade. In the face of this kind of performance, it is misleading and unproductive to characterize food producers as timid, backward and lacking in confidence in both themselves and Canada, if they raise questions about the wisdom of this deal.

Let us look at what we think happened in arriving at this trade deal, and how closely it matches our expectations. The Ontario Federation of Agriculture and the Canadian Federation of Agriculture have repeatedly stated their conditional support for trade negotiations which would establish effective trading rules and dispute settling mechanisms, maintain market access for Canadian agricultural products and reduce international trade subsidies. Notwithstanding the somewhat euphoric response to the deal from the red meat sector, we are far from satisfied that the dispute settling mechanism is all that it could be or should be.

The U.S. continues to apply their trade law as they see fit, and may very well be augmented with a new arsenal of protectionist measures between now and January 1989, and we apply our trade law. The "status quo" is intact. There is no guarantee of a lessening of countervail action, and no guarantee of market access above what we have now. This bi-national panel, which supplants judicial review, rules on whether each side has applied its own rules fairly. This is either an unfortunate commentary on the fairness of judicial review, or it implies an optimism about the operation of the bi-national panel yet to be elucidated.

I do not believe critics of U.S. trade remedy law ever pointed to the judicial review as the critical failing. It is the trade law itself and not the administration which is discriminatory. The panel will kick in after already lengthy U.S. trade remedy procedures have run their course, and it will have a further ten months to render a decision. The panel itself is made up of two American trade experts, two Canadian experts and one neutral person ostensibly a man or woman without a country. Except in exceptional circumstances, which fairly describes most trade disputes, its rulings are binding. The sense of being bound breaks new ground. In practice, it will mean that where a panel disagrees with an investigative authority, the authority must reconsider. The authority will be obliged to come up with a new decision "not inconsistent with the panel decision". Now you tell me what the impact of that is going to be. It is difficult to keep the faith, when one considers that the U.S. continues to use export subsidies to make grain sales to countries presently supplied by Canada. The Agreement, although not in force yet, calls for them to consider our interest in the use of export subsidies. Inasmuch as Canadians do not use this very direct and blatant form of export subsidy, producers regard statements like this as hopelessly naive.

Speaking of export subsidies, we will want to be very careful to ensure that the methodology chosen for defining subsidies excludes producer levies, which are used to export products arising as an inevitable consequence of supply management. There is a world of difference. Briefly then, we do not believe that we have achieved what is needed in terms of common rules and effective dispute resolutions. It appears that the truly important work of defining export subsidies, estimating hurt to the domestic industry and establishing effective, quick dispute arbitration has been put off to the future. In all likelihood, the really important questions will only be answered within the GATT forum.

The OFA and the CFA qualified their support for trade discussions because they knew that Canada had very little to comfortably give up in the supply managed product areas, seasonal tariffs and grain marketing regulations. Moreover, we worked hard to gain assurances that the underpinnings for the supply management systems would not be touched. Although the Agreement does not rule out GATT-consistent import quotas in support of national supply

management programs, the deal does take a swipe at current supply managed sectors by removing tariffs on processed products. Increases in the global share of the Canadian market given to U.S. producers in the poultry sector is a strongly negative signal to rank and file producers.

The removal of tariffs from processed poultry products in the case of chicken, T.V. dinners and turkey pie, etc., not now under quota, is worrisome. Official assurances that these items could be placed on the import control list as imports increase as a result of tariff phase out, are accepted with the same confidence as all those "not-on-the-table" assurances. Farmers are leery of this method of protection in light of Canada's proposal to the GATT forum on agricultural trade that there be "a binding commitment not to introduce new import barriers or trade-distorting measures". If ice cream, yogurt and processed chicken products are not placed on the import control list, producer confidence in these sectors will be undermined.

The removal of tariffs will deliver mixed blessings to producers of horticultural crops. In the face of a proposed Agreement that lifts the seasonal tariffs, it seems clear that the bargaining power of producers on vegetables for processing will be severely curtailed, the corollary being lower grower prices. Tender fruit producers and grape growers, particularly, will be hard hit. The so-called snap-back provision, which for 20 years will allow either side to revert to a preagreement level of tariff under special conditions, has to fall in the too-little-too-late category and will be of limited value. A decade from now, our 23 wineries will probably be reduced to a handful, and those will likely be, for a large part, bottlers of U.S. grapes and grape concentrate.

The process of seeking adjustment or compensation for hurt sectors, as a result of this Free Trade Agreement, is hampered for two reasons, initially. It now appears that the government does not intend to establish adjustment programs despite assurances that there would be large transition funds made available; and secondly, the process is hampered somewhat as seeking adjustment is tantamount to acknowledging the inevitability of some sectors being harmed, and no free trader is about to acknowledge casualties.

In summary then, the Agreement does not specifically meet our stated conditions for supporting trade negotiations: establishing effective trade rules and a dispute settling mechanism, maintaining market access for Canadian agricultural products; and a reduction in the international trade subsidies. Producer reaction, if this Agreement is ultimately signed, is hard to judge. There is a great deal of inertia built into the holding of agricultural assets and they are extremely hard to unload in the face of poor profitability and downward trends. Production assets for many commodities are expensive and specialized. So the prospect of maintaining flexibility, in order to see what happens, is limited in many commodities. Producers are making decisions, right now, based on the writing on the wall. Comments by politicians that we could withdraw from this deal with a change in government are irresponsible. That is like saying we will go ahead and have children, and if we do not like them, we can put them up for adoption. The cost to producers for getting out of the deal would match or exceed the cost of adapting to it in the first place.

Finally, from a producer's point of view, the dispute settling mechanism is too much promise and too little delivery. The effective tariff reduction on processors and the effect of that, in turn, on the demand for supply managed products is of great concern. The decisions which will be made in some horticultural areas are very sobering in the fact that they are so final. The extent to which consumers will ultimately gain through lower food costs is an open question. Where are the hard dollar gains for producers? Until the government provides a clearer picture of producer benefits, it will be difficult to see widespread farmer support for the agreement.

BIOGRAPHY

BRIGID PYKE

Brigid Pyke is currently serving her second term as President of the Ontario Federation of Agriculture (1987-88).

Brigid has been involved in farm organizations for over a decade. She is a charter member of the Ford Tractor Agricultural Women's Council, and started serving as OFA Director for Frontenac County in 1979.

In 1985, Brigid was also first Vice-President of the Canadian Federation of Agriculture, and today sits on the CFA's Executive Committee.

Brigid is a partner in the family-owned Pyke Farms. The Pykes milk 180 Holsteins and crop approximately 1,300 acres on Wolfe Island and Gananoque.

PRODUCERS IN THE CHANGING MARKETPLACE

TERRY DAYNARD
General Manager
Ontario Corn Producers' Association

Today I am going to talk about free trade. Perhaps it is a well worn theme. Nevertheless, it is a worthy subject because of what is shaping up for us in the Bilateral Trade Agreement and what may be ahead of us through Multilateral Trade Agreements. It is an area with which I and the Corn Producers' Association have had major involvement in the last two years.

To begin, I will say a few words about my visit to Australia, 14 months ago. I was selected as one of two Canadian farmers to attend the Cairns Meeting in Australia. This was a meeting of so called fair traders.

In Australia, I saw a country that had amazing similarities to Canada. There is a very key difference about which I will speak later. In Australia, I noted political happenings which were very familiar to Canadians. I saw Federal and Provincial Governments that did not get along very well together. I saw a country that was trying to establish a milk marketing system, but the state of Victoria would not agree so therefore they could not put the system together. I saw that the very right-winged government in Queensland, and the Labour Government down in Canberra did not seem to talk to each other very well.

I felt very much at home actually, in that I saw a country with a relatively small population (16 million), much like ours. I saw a country that had a very strong agriculture and resource base. I saw a country that because of that, was having a very difficult economic time going through the same problems that we have here now.

But I saw one marked difference. In Canada, thank goodness, we had some parts of our country that, at the moment, are working very well. The industrial manufacturing sector that we have, has performed very well over the last 5 years for that portion of the population, particularly in central Canada, that is directly involved in it.

By contrast, in Australia that portion of the economy is missing. Certainly they have an industrial sector there, but it's highly protected. They even have barriers to protect industries that do not exist in that country. They have barriers to stop the importation of different types of farm machinery that they do not produce in the country. For me, it was an educational experience to realize how important the absence of an industrial sector, was even to agriculture. Quite frankly, they do not have an industrial sector to draw upon to finance their special Australian grains program and their economy was suffering as a result.

I spoke to people from New Zealand who attended the conference. They told me that everything I saw about Australia was ten times worse in New Zealand because they have only 3 million people there. They have agriculture and they do not seem to have very much else.

The EEC with its large industrial sector available to assist the agricultural sector provides a marked contrast. At the same time, I thought about that contrast. The EEC has been one of the world's greatest economic successes over the last 25 years.

It certainly has benefited the people who live in the EEC. Think of what was going through peoples' minds as it was being developed. Think of the citizens of Belgium or Luxemburg wondering what they were going to have to give up when they joined with their huge neighbour Germany, a country with which they had been at war quite recently. Think of countries such as Portugal and Ireland, countries with strong agriculture, seeking entry, while knowing that they basically were obliged to accept the EEC's entry conditions or else not join. They recognized that it was to their advantage to join in, and so, hat in hand they have joined.

Certainly, we are aware of problems that they have. Perhaps to us, their agriculture appears to be a huge problem. However, to the Europeans it may not seem so severe. This leads to a key question. Where is it better to farm? Is it better to farm in a country such as Australia whose agriculture is highly efficient, or is it better to be a farmer in the common market? Is it better to be a farmer in New Zealand, or is it better to farm in Japan, which is not even close to having a competitive agricultural sector? Is it better to be a grain producer in Argentina, which is recognized as being one of the most efficient grain producers globally, or is it better to be a grain producer in Canada and the United States where we have some other sectors of the economy that are available to provide needed assistance?

There are a couple of lessons to be made out of this. One is that agriculture cannot prosper in isolation from the rest of the economy. I am satisfied that the wealth and financial well-being of Canadian agriculture are just as dependent, if not more so, on the strength of the total economy in which we are located, as they are on agriculture itself. I suppose Ontario is a very good example of this.

Certainly we have problems in agriculture in Ontario, but we have also had the benefit of a very strong economy in substantial parts of this province. Certainly that has spilled over to benefit those who work in agriculture as well. We cannot ignore the signifi-

cance of that. The second point is that it's very difficult to function if you are not part of a larger trading environment. That is the lesson of the common market. That is the lesson of the United States. Even Japan is vulnerable to this we are told, and they have a population of somewhere in excess of 100 million people. Certainly it's very difficult to see how we have a hope of succeeding with 25 million if we are not part of a larger trading area.

A discussion on free trade, in my mind, has to be viewed in the preceding context. We have certainly had a good trading relationsnip with the United States. We would like to think that we have benefited from it. We would like to think that the United States has also benefited. However, I believe those who say that this environment may not continue. Certainly it would be nice to keep it just as it is, but it may not continue automatically. If the alternatives are to be either closer to the United States or more distant, I do not think we have any choice but to opt for a closer relationship. Indeed, that seems to be what the Free Trade Agreement is all about. I have concerns about the Free Trade Agreement. I have some concerns about foreign investment. I have spent nights thinking about how I would have reacted if CP Air had been merged with American Airlines rather than with Pacific Western, or if the Canadian National Railways were to merge with an American railroad. Maybe it would be alright, but I would like to think it through before I would be fully comfortable with it. I have concerns about what may come out of the investment arrangements with respect to American influence on our banking. I have some concerns that I want to think through on the energy policy. I am a little disappointed in this dispute solving mechanism. I never felt very sympathetic towards the view of Ms. Carney that we should make efforts to totally do away with countervailing duties and anti-dumping duties. I think we want to have the right for that type of protection ourselves. In fact, I agree with the speaker this morning who said that perhaps we should use countervail and anti-dumping measures more often so as to point out to the United States that two can play the same game.

I am a little disappointed that it is going to take five years, as a minimum, to work out what is fair subsidization, or for the interpretation of the GATT code on subsidies to become more specific. There are a lot of unanswered questions with respect to the dispute settling mechanism. First of all on the process; and secondly, what the process might mean after the Omnibus Trade Bill works its way through the Conference process in the United States Congress and is signed by the President or his successor. There are some scary things in that Bill. For example, there is a clause in the House version of the Bill providing for a grant of $500,000 to any American group conducting a countervail or an anti-dumping trade action. Obviously the corn producers are watching the progress of the Bill because the proposal is that this provision would be retroactive to January 1986. This is obviously aimed at us, but would be available for American interest groups to use with respect to other commodities as well.

Certainly I have concerns with respect to free trade for agriculture. I do not think that Canadian agriculture as a whole had very much to gain directly from a free trade arrangement. There are sectors, such as meat, that would gain. There are sectors such as horticulture that would lose. I am quite amazed to see that those lobbying to maintain supply management got the point across. They may not be totally satisfied with the arrangement, but matters certainly look a lot better than was expected at one point. Even issues that the dairy farmers talk about (imports of yogurt and ice cream) were provided for, in that products may be added to the Import Control List. There is even the opportunity to establish new marketing boards. Indeed, I think the threat to Canadian supply management boards is in this country, not in the United States. I have heard more than one Canadian express the idea that supply management is unjust and that the free trade negotiations provided an opportunity for change.

Canadian grain producers have argued that, given a fair and level playing surface, we can compete with anybody, including the Americans. We are going to have an opportunity to do that, when subsidies are roughly equivalent on both sides of the border. I agree with the comments that Brigid Pyke made in this regard. In fact, we are in the process of attempting to determine how it was concluded that subsidies on oats and barley are presently comparable in the United States and Canada. OMAF's Economics and Policy Coordination Branch, I understand, is also examining this question.

As a Canadian, I do have some concerns with the long term integration with the United States, because, no doubt, this deal means that we will become more dependent on Washington decisions. Our agricultural policies will be more integrated with the United States. I suggest that Canadian farm organizations should start putting some budgets aside for lobbying trips to Washington. However, the harmonization of policies can also be beneficial. I welcome the possibility of better harmonization on health rules. I welcome the opportunity for some better harmonization on pesticide rules. So we have some things to gain.

Certainly some things about free trade are causes of concern. There are some unknowns. There are some questions. But when I consider what are the alternatives for this country, and recognize that our well-being in agriculture depends on the total economy, not just agriculture, I come to the conclusion that I am cautiously optimistic that the free trade arrangement is the right direction to go.

I am also convinced that in agriculture, our future has to be with trading relations with the United States. Every day one gets a little bit more disillusioned with what results from GATT. We have seen a U.S. proposal that is totally unrealistic, being attacked as actively in the United States as it is anywhere. The EEC

proposal suggests that they do not want to change anything, although they might agree to make minor changes. I am certain there are people in this room that are strongly supportive of the free trade arrangement, and there are people in this room representing agriculture that want anything but a free trade arrangement for the particular commodity they produce. Certainly we wish the GATT process well, but I have growing doubts that it is going to be the panacea to solve the grain problems.

I would like to briefly mention the stock market. It shows that agriculture's well-being is not independent of the rest of the economy. I think we have been a little smug about what has happened in the last two weeks. You even pick up the comment in the farm community - it's about time those guys got what was coming to them. We have had tough times in agriculture, now it's time for the yuppies to get their share as well. But I think in saying this that we have not thought through what the implications of the stock plunge are for us.

I think it's fairly clear that a recession is ahead. Let us hope that there is not a depression as well. We see signs of deflation. Doug Mutch of the Canadian Livestock Feed Board in Montreal, has a superb forecasting track record over the last couple of years. Unfortunately, he has always been pessimistic and he has always been right. He foresees a major period of deflation ahead. We have already seen it in agriculture. We have certainly seen it in stocks during the last two weeks. We are expecting to see it in real estate, in wages, retail products and certainly we may not have seen the last of it in agriculture with respect to both land and commodity prices.

We are hoping that the government will take steps to avoid the interest rate problems we had in the last recession of 1981 and 1982. The panic action taken last week is worrisome, but at least the panic was in the right direction, toward lower interest rates. Of course the real problem is the U.S. and to some degree the Canadian budget deficits. There is no apparent resolve in the United States to do anything about that.

Until this stage in the 1980's, our focus as farmers has been on agricultural problems. Certainly this has been true in the grains sector. But I also worry about what may be ahead for the total economy, because it is important to us. Assistance that we have received from the Ontario Government recently has greatly helped the farm community. We have been able to get that assistance because the general economy in Ontario is booming. The auto industry is booming. But what is ahead if the auto industry and other sectors stop booming? What happens if we need a special automobile program comparable to the Special Canadian Grains Program that we have had in the last year? There are signs that could happen.

To summarize, I believe that the overall economy is just as important to farmers, as are the particulars of the agricultural economy. Free trade has to be viewed in this context and the stock market has to be viewed in this context. Secondly, while agriculture is only one player in the total economy, we can have a major influence if we get our act together. That is another thing that I learned in Australia. Australian farmers have done a fabulous job of getting themselves organized. One major farm organization speaks for them. We have not done a particularly good job of that in this country. We have supply management people on one side, we have "free enterprise" on the other side and we spend too much of our time arguing with each other rather than trying to find common ground. That is not a criticism to the Federation of Agriculture in any way. That is a criticism to the rest of us in that we do not get behind the Federation of Agriculture as much as we should. We must get together in order to influence what happens at the national level. This influence is needed because what happens in the national economy is probably just as important to me as a farmer, as what happens in the grain program.

BIOGRAPHY

TERRANCE BERTRAM DAYNARD

Born April 6, 1943 at Newmarket, Ontario. Raised on a farm and attended elementary and secondary schools in Perth County, Ontario. Obtained a B.Sc. (Agr.) in 1965; an M.Sc. in 1966; and his Ph.D. in 1968, all in Crop Science at the University of Guelph. In 1968-69 he received his NRC Postdoctoral Fellowship at the University of Kentucky. Assistant Professor, Associate Professor and Professor, Department of Crop Science, at the University of Guelph, from 1969-85. General Manager, Ontario Corn Producers' Association from 1984 to present.

He has had 60 publications in refereed scientific journals; 100 other scientific publications; and 80 other professional publications.

He is the owner and operator of a 195 acre cash-crop farm near Guelph.

QUESTION PERIOD FOR B. PYKE AND T. DAYNARD

Q. You mentioned that both governments will need several years to determine what level of subsidies is fair. Were you saying that such discussions are going to be pushed off into the GATT negotiation?

TERRY DAYNARD

A. Many Canadian groups have argued that we need a better means of resolving the disputes between Canada and the United States than we have right now. Indeed, as I understand that was one of the chief reasons why the Mulroney Government began the free trade negotiations. Most people agreed that it is reasonable to look at the relative level of subsidization in the two different countries.

At the Canadian countervailing duty hearings, all we had to prove was that the U.S. was subsidizing corn production and was causing injury to us. Whether Canada was subsidizing corn production was irrelevant. Although we believe that Canadian subsidies are lower than U.S. subsidies, we acknowledge that looking at one country's subsidy without considering the other country's subsidy is unfair. We hoped that the free trade arrangement would provide a process under which subsidies would be compared. Clearly the U.S. would not agree to that.

The proposal in the Agreement will be costly to the Ontario Corn Producers' Association, but that is what we have to work with. However, they have agreed, over the next five or seven years, to come up with a common interpretation as to what the GATT subsidy code means, with respect to what are reasonable subsidies and what are not. There is clearly a difference in interpretation between Ottawa and Washington as to what is a countervailable subsidy. It would certainly be nice if that were resolved quickly, but this does not appear to be possible.

BRIGID PYKE

A. To the best of my knowledge, the two-price wheat system was put into place when the world price for wheat became substantially higher than what Canadian consumers and the Canadian Government were prepared to pay for their bread. That system was instituted to put in a lower domestic price for the benefit of consumers, and it cost farmers a great deal of money. Now everybody is wondering why our bread makers are being held to ransom. I think the processors haven't been hurt to any greater extent than the farmers were when we took less than the world market price to protect Canadian bread prices.

Q. I think it is critically important as Mr. Daynard has said to sort out the subsidy code in GATT. In the supply management areas, our attention needs to shift quickly now from the U.S. trade situation to the GATT negotiations. I am concerned that all of the talk about subsidy reduction focuses on the result (subsidies) rather than the cure. The cause of subsidies is primarily overproduction. Would the two speakers comment on the subsidy and overproduction questions, hopefully suggesting something other than driving down producer prices to the point where people just simply go out of business?

TERRY DAYNARD

A. If we let the rules of economics function, if we are willing to produce in excess of what the market needs, the solution is lower prices. Adjustments should take place accordingly. In agriculture, we tend to divide ourselves into two schools of thought in this country. One is the approach that dairy farmers have taken. I do not see much chance of the world moving to the free market system for milk and milk products, and accordingly I can understand the route taken in Canada for milk. This has also been applied by other supply management groups. The other approach is to say that we are going to try to compete on the world market. By and large, the grain farmers of Canada and livestock producers have been saying that that is the route they would like to go. The difficulty is when you get a mix in between. I have no problems with the dairy producers' solution when it produces for the domestic market. I have some problems when there is a little bit left over and it is disposed of on the world market. I recognize that the quantities are relatively small. It is probably more a question of principle than a major problem.

I see some problems though, if it is suggested that the dairy route be followed for other commodities. We have problems with the textile industry: should we have supply management for textiles as well? This has been raised at some discussions at the SAGIT level. If you have a choice between not having a clean shirt in the morning or not having breakfast - I will go with the dirty shirt. They are different types of commodities, and countries put different priorities on them. Obviously, this country has struggled for 25 years trying to find the solution between the two routes. The way the GATT articles are currently written, supply management is actually more consistent with GATT than some of the subsidy practices. I would be surprised if the GATT provisions with respect to supply management were changed during the Uruguay round of negotiations.

BRIGID PYKE

A. Much of economic theory that seems to hold true for some industries does break down in agriculture. To my mind, one of the basic reasons is

that ever since man left the Garden of Eden every country on the face of this earth has had as one of its primary goals - self-sufficiency in food, or as close to it as conceivably possible. That has resulted in a food production system with subsidies and various other programs to make sure that countries maintain that self-sufficiency in food, at some basic level. The idea that we can let go of a large part of our productive capacity on the premise that we can buy world surpluses on a regular basis at a price we are willing to pay is pretty naive. I think that is a basic hurdle that has not been solved.

The other problem is the unpredictability of the productive process. Agriculture is a continuous process, and whether you get 100 bushels to an acre of corn or 200 or 135 depends on many things over which the farmer has no control. A small surplus has the potential to ruin the price for everyone.

Given the effect of just a small amount of surplus on the world's markets, and the intent of every country to stay self-sufficient, means that agriculture has been and will continue to be treated very differently than a number of other commodities. That is not going to change because we want it to change. As far as subsidy wars are concerned, I have got my bets on the U.S. giving up long before the Europeans ever think of it.

We did have a brief look at the system that is contemplated to calculate this Producer Subsidy Equivalent (PSE). Looking at the supply management system in Canada for instance, it increases the cost. It is said that it is a subsidy to the producers because they are taking a domestic price that is higher than the world price. Therefore it is a subsidy. But the other side of the ledger has not been kept. No points have been given for the fact that the operation of the supply management systems in Canada do not contribute to any great extent to oversupply in the world. Producers and farm organizations are not going to accept this system of Producer Subsidy Equivalents without a great deal of soul-searching.

Q. Have you looked at the adjustment priorities if the Agreement comes into effect?

BRIGID PYKE

A. We have not had a chance to do so. We are still trying to count the cost and trying to get a handle on what the Agreement really means, and how much damage has been done or will be done to each sector if it goes through.

TERRY DAYNARD

A. I am a little uneasy about commenting on that in other than a broad way. Government has been ambiguous as to how much it would provide for adjustment. On the basis of what I heard at the SAGIT, the government was committed to assisting adjustment. The Federal Government has been ambiguous with respect to whether this would be done through existing or new programs. On the basis of what Mr. Wilson said the other day, it appears to be their intention to try to do it within existing programs. It would be absurd for the Federal Government to think that the Free Trade Agreement could be instituted without any adjustment money. I would suggest sectors that feel the free trade arrangement will damage them (wine and grapes is an example) should, rather than waiting for government to come up with an estimate, generate their own damage estimate and make sure that it has enough zeroes at the end.

WRAP-UP

CLAYTON SWITZER
Deputy Minister
Ontario Ministry of Agriculture and Food

The Ministry of Agriculture and Food has attempted to take a proactive role in developing and furthering the understanding of trade policy and competitiveness in the Ontario agriculture and food industry. Many of you, here today, have participated in seminars that our Ministry has organized and some of the discussions we have had on the bilateral trade negotiations. Moreover, our Ministry has renewed its efforts to consult with the industry on the Free Trade Agreement tabled on October 5.

This morning, you heard from our Minister that the Government of Ontario is keenly aware of the importance of trade to the future economic health of this province. Competing in the global market is a key theme of his government. Given that this province is in a market for and competitor of the United States, trade policy indeed plays a vital role in provincial policy making. Today's session provided us with more information on the importance of being competitive in the global environment. It also made us aware of the need to develop a consensus on future directions for our industry.

Dian Cohen provided us with an economic forecast for Canada and, indirectly, for the agricultural industry. Had she known that the world stock markets would become so volatile, she may not have been as willing to take on this task. I think she provided us with an excellent base to analyze the near future. As she pointed out, the almost uniform reaction of the stock markets around the world emphasizes that we are in a global marketplace. The ease with which information is spread, and the availability of capital these days, also makes one recognize that we are in a global marketplace.

Ms. Cohen made the comment that although there is a national strategy for agriculture in Canada, very little newsworthy activity has come out of it. Indeed, a lot of things have come out of it. I would like to take a minute to tell you about some of them.

First of all, I think the one billion dollar national deficiency payment was made easier because we had a national agricultural strategy. There was an agreement in the strategy for the Provincial and Federal Governments to work more closely together. Discussions between the two governments are now taking place on a 1987/1988 payment.

I want to share some of the other things that have come out of the national strategy. There has been a very substantial increase in federal/provincial cooperation on such things as research and technology transfer, farm finance, the development of markets for agricultural products, crop insurance, and in the areas of free trade and agricultural trade policy. Although there have been many positive aspects from a truly nationalized policy, the one area that has been slow is tripartite stabilization. We have had great difficulties in finding a way in which all provinces could participate in tripartite stabilization.

Professor Rugman's remarks highlighted the importance of correctly understanding the present Canada/U.S. Free Trade Agreement. He noted that the bilateral agreement will affect the entire spectrum of the Ontario agriculture and food industry, but in different degrees. In my opinion, he feels it is a good deal for Canadian agriculture, and for Canada as a whole. I believe his focus on U.S. trade laws was very appropriate. Like many people, I am a novice on how the U.S. trade laws are used and what the ultimate impact of such laws is on our ability to compete in the United States. I think Professor Rugman gave us a number of insights and I commend his paper for information about possible abuses of U.S. trade law.

I believe Professor Rugman has noted the greatest concern of Canadians in the bilateral talks - how to avoid, or at least come to proper grips with, growing U.S. protectionism. The dispute settling mechanism is critical to the success of this agreement but this item is unfinished and will require additional negotiation and hard work. Professor Rugman noted, in his conclusions, that Canada must work within the U.S. system to ensure that our views and concerns are clearly known to all players. The developments in the bilateral trade agreement must not completely overshadow the challenging new round of multilateral trade talks - the GATT. For the Ontario agriculture and food community, this is of great importance. Agricultural trade has to be one of the central issues resolved in this round of the multilateral trade negotiations.

My colleague, Bob Latimer, gave us valuable insights into the process of the GATT. His remarks noted the growing problems in international agricultural trade and the need to remedy these problems, before past gains in Canadian and Ontario agriculture are lost. I believe the challenges were succinctly outlined by Mr. Latimer. He provided a long-lasting framework for understanding this issue. Someone said the GATT discussions would still be going on when they retired: as I understand the process that may be true.

This afternoon, Gerry Doucet provided his own insights into what these trade negotiations mean for segments of the Ontario agriculture and food industry. I was pleased to see Mr. Doucet examine the historical and current realities of the food system in this country.

The present industry in Canada reflects what he called the farmer-industry-consumer -government consensus that has developed over the years. Mr. Doucet emphasized the need to understand all of the linkages in the agriculture and food industry. The Ministry of Agriculture and Food has attempted to reinforce this point for some time. We have had considerable success in our efforts to bring the agriculture and food industry together to discuss mutual problems.

David Beatty said in response to a question: "We are all in this together". Mr. Doucet mentioned the good working relationship among the Sectoral Committee - the SAGIT. We heard another view a few minutes ago that possibly all was not sweet among the various people on the SAGIT's. Mr. Doucet said Ontario may wish to formalize some kind of similar body. This would be a formal body where people from all parts of the agriculture and food industry could discuss mutual problems. I feel that we are already doing this to some extent but maybe we could do it better.

Mr. Beatty concluded that there is a need to realistically evaluate policy alternatives and the actual global market conditions. He mentioned that a fresh approach to food policy was needed. He took us through a very precise and well informed examination of the current and anticipated challenges facing the food processing industry, with particular reference to his own company.

Professor Rugman noted that the food processing sector was one of the few major concerns he had with the Free Trade Agreement. Mr. Beatty's analysis clearly presented the current competitive environment and the challenges of free trade. He said a healthy processing sector is critical to the success of the entire food production, distribution and retailing systems in Ontario. Mr. Beatty discussed the bread industry and indicated that the structure of competition is extremely dynamic. One company may buy out others, moving them from country to country. Buyers have more power and substitute products continue to be developed. Often these new products develop their own market niches. The Free Trade Agreement presents a challenge to all sizes of bakers. The wheat used by Canadian bakers is priced by the Canadian Wheat Board and is higher than wheat in the U.S. Canadian wheat prices, according to Mr. Beatty, will have to fall before the border is opened in order to protect 25,000 bakery jobs. The situation in the biscuit business seems to be much the same as in the bread business.

Brigid Pyke pointed out farmers are traders and risk takers and that they have been for generations. She questioned the dispute settling mechanism of the Free Trade Agreement. Again, I stress that we are talking about things that have yet to be finalized. Mrs. Pyke feels that the really important questions have been put off to the GATT discussions. Finally, she questioned the popular conception that consumers would gain from free trade with the United States.

Terry Daynard shared a couple of lessons with us. He said the agriculture and food system cannot prosper alone. It can only prosper if there is a good economy surrounding it. I think this is an excellent point. He also said that a trading environment is important for the success of agriculture. In so doing, I am not sure he was supporting the present Agreement, although he did indicate that he felt cautiously optimistic that the Agreement with the U.S., as we now understand it, was the right way to go.

In conclusion, it is obvious that the role and the importance of global markets should not be under emphasized. I think all of our speakers have recognized that in one way or another, we are a trading nation. We must trade and we must trade globally.

Brigid Pyke pointed out that trade is certainly important to Ontario's agriculture. She mentioned that Ontario imported $3.36 billion in agricultural and food products into this province in 1986. The same year, we exported $2.04 billion. The difference between those is $1.32 billion. We import more than we export. We are definitely a trading nation and hopefully we will find ways to improve that balance of trade. The United States is Ontario's largest trading partner. Our imports from the U.S. in 1986 were over $2 billion, or 61 percent of all of our imports. Ontario exports to the U.S. were $1.4 billion, or 69 percent of all of our agriculture and food exports.

Our Ministry's response to the challenges of increased competitiveness is embodied in a strategic plan. We put the plan together a few months ago, after a year or more of working on it. We tried to decide where our Ministry should be going over the next few years. Increasing the competitiveness of the agriculture and food industry in Ontario is one of the major thrusts of this Ministry. In order to improve competitiveness in all segments of the agriculture and food industry, the Ministry is planning to take a number of steps. Among these steps are: to continue to support and target research, to enhance new and present markets through Ontario agriculture and food products; to improve the market knowledge and understanding of the agriculture and food segment of Ontario; and to emphasize new technology developments and use. The other major pillars of our strategy for the future, revolve around the enhanced stability of the agriculture and food sector; education and training, and in other areas where we play a major role.

At the Grains Council Meeting yesterday, concerns were expressed about the number of young people going into agriculture. At the Grains Council, a farmer said that farmers are not suggesting that their children become farmers or producers. I have had a lot of interest in what young people do educationally, in terms of agriculture. The young people of today do not see a future in agriculture, at least as evidenced by the fact they are not going to the Agricultural Colleges. Our Ministry feels it has a major role to play and we are encouraging young people to come into our Agricultural Colleges. Our Farm Start Program will hopefully help young people get into agriculture.

Finally, the fourth thrust of our strategy for the future revolves around our concern for soil and water

management. As the Minister said this morning, we have a couple of new programs in that area.

Jack Riddell and this Ministry are very sensitive to the points made about collaboration, cooperation and understanding between all parts of the agriculture and food industry and with other governments in this country. Mr. Riddell has met with many groups and organizations to discuss the impact of the Free Trade Agreement. We have had discussions and dialogues with other provinces and the Federal Government on this issue.

I hope that my efforts to summarize today's discussion have been of some interest and value. Thank you for attending and for your contributions to the discussion.

BIOGRAPHY

CLAYTON M. SWITZER

Clay Switzer received a M.Sc. degree from the Ontario Agricultural College (OAC) in 1953. He was granted a Ph.D. degree from Iowa State University in 1955. He joined the Department of Botany, OAC, immediately after graduation. He became Chairman of the Department of Botany in 1967, Associate Dean of the OAC in 1971, and Dean on July 1, 1972. He completed his second five year term as Dean on June 30, 1983 and was appointed Deputy Minister, Ontario Ministry of Agriculture and Food on January 1, 1984.

He has been President of the International Turfgrass Society, President of the Ontario Institute of Agrologists, and President of the Agricultural Institute of Canada. In July of 1986, he was made a Fellow of the Agricultural Institute of Canada. In May of 1987, he received an Honourary Degree Doctor of Laws from Dalhousie University in recognition of his contribution to the Canadian Agricultural Industry.

WORKING TOGETHER IN THE GLOBAL MARKETPLACE

ALLAN GOTLIEB
Canada's Ambassador to the U.S.

I am here to talk about our relationship with the United States, particularly in the area of agriculture, as it will unfold under the Free Trade Agreement, which is now being submitted to Congress and the Parliament in the form of elements of an agreement. Agriculture is responsible for a full 10 percent of all economic activity in this country. Last year, agriculture generated some $20 billion in cash receipts and was responsible for well over 1.5 million Canadian jobs. Most sectors of our farm economy could not survive without trade. Half of our farm cash receipts are derived from export sales. Canada's single most important customer is the United States.

Sales of farm products to the United States account for one third of our total agri-food exports. I think that for Canadian agriculture, like a lot of other elements of Canadian industry, it comes down to a decision whether we should seek the opportunity and challenge of enhancing and securing our access to a combined market of 270 million people, or face the very real risk of restricted access to a market vital to our prosperity. I would like to turn to that a little later because I have been concerned ever since 1981 about the growth of protectionism in the United States.

I would like to discuss a few important misconceptions about the United States and our trade, which I think has surfaced in the recent free trade debate. But first I want to outline some elements of the Agreement that we initialed on October 4th, as they apply to the agri-food sector. As I mentioned, the text that was initialed was only the elements or substance of an agreement and that language and the principles are now being translated by lawyers into a full legal text. I expect it will be ready fairly shortly. The resulting treaty would then have to be approved by each government and country according to the respective constitutional political requirements in each country.

In the general history of international trade, this Agreement is unprecedented in terms of the volume of trade affected and the scope of the commercial relations which it covers. Apart from the Multilateral Trade Agreements that have been negotiated periodically under GATT, no previous Trade Agreement has ever covered such a large volume of trade. Unlike the GATT, this Agreement seriously addresses trade in agriculture and services, as well as trade in manufactured goods. What was negotiated is, I believe, a very good package for Canadian agriculture. I will explain why I believe that to be the case.

I think that the deal is very significant because it eliminates tariff barriers and it makes important progress on key non-tariff barriers, yet it retains the capacity for the Canadian Government to maintain the kind of systems of support for Canadian agriculture which have proved their worth over the years. Underpinning the agricultural deal, and indeed underpinning the whole elimination, in the Agreement, of tariffs and non-tariff barriers, will be the rules on trade remedy law and dispute settlement. For the Canadian agricultural community and for the food processors, this is a key part of the Agreement. It is what we call security of access so farmers can plan on the basis that the goods they produce for trade in North America will be as free as possible from capricious and arbitrary changes in the terms of access.

In recent years, Canadian agriculture has been hit with investigations under U.S. trade law on our Canadian exports of potatoes, raspberries, cut flowers, swine and pork, storable vegetables, cattle and beef. During the last four or five years, there have been other investigations about Canadian exports such as forestry, fisheries, minerals, metals, manufacturing and telecommunication sectors. I have followed, watched and been involved in almost every one of these disputes as they have come forward, under the pressures of protectionism in the United States.

Some of these investigations have led to the imposition of punitive duties or other restrictions. In other cases, we avoided the imposition of restrictive measures, but even where we did not, the continued threat of harassment from investigations, under U.S. trade remedy laws, has had a chilling effect on investment and production. Trade remedy laws are a lawyer's paradise. There are now 46,000 registered lawyers at the Bar in the District of Columbia. In 1980-1981, there were only 20,000. Something happened between 1981 and 1987 - the United States has had deregulation. Even in our country, trade remedy lawyers are becoming quite prominent and they are proliferating because of the sharply increasing number of trade disputes.

Trade remedy laws are highly formalized, expensive for domestic producers, expensive for exporters, and unpredictable as to result. What producer wants to make the investments required to open new markets, if his access can be suddenly cut off by arbitrary anti-dumping, countervail or escape clause actions of the sort that we have seen throughout the 80's. It is the '80's we are talking about. These things did not happen in the 1970's. Since 1980, the United States has taken something like 135 countervail actions against its principal trading partners. Before 1980, they did not take any. Trading partners of the United States have never taken any countervail actions, except one, and that was by the corn growers in Ontario,

this year.

In the Agreement, the two governments have agreed to a unique dispute settlement procedure, which will guarantee the impartial application of their respective anti-dumping and countervailing duty laws. Each party may seek a review of an anti-dumping or countervailing duty determination by a bilateral panel, which has binding powers. It takes a final and binding decision. During a five year period, that can be extended to seven years, the two governments will work to establish a new regime to address problems in dumping and subsidization.

Additionally, the two governments agreed that any changes in the existing anti-dumping and countervailing duty legislation will apply to each other only following consultation and as specifically provided for in the new legislation. Moreover, and this is the second key element of the mechanism, either government can ask a bilateral tribunal to review such changes in light of the object and purpose of the Agreement and the parties' rights and obligations under the GATT. Bear in mind that the object and purpose of the Agreement is the progressive liberalization of bilateral trade.

The Agreement also provides, at the insistence of either party, for bi-national panels to make recommendations for the settlement of disputes regarding the interpretation and application of other aspects of the Agreement. The agricultural package will help to ensure that in the future subsidies will not be unfairly applied to give either country a competitive edge in the other's market.

Moving now to the debate about this Agreement, I want to address three important myths or misconceptions that I have heard being expounded here in this country. The first misconception is that the Canadian Government has been stampeded into this Agreement by paranoia about United States protectionism. In other words, it is alleged that the government has miscalculated the seriousness of the protectionist threat in the United States, and has placed an unwarranted value on seeking secure access to the U.S. market. The argument runs like this. The current wave of protectionism with the United States is in response to the trade deficit. The result is an overvalued dollar. Now, that the dollar has been devalued, the trade deficit will correct itself and the protectionist threat will recede. In my opinion, this analysis borders on dangerous self-delusion. The trend towards protectionism in the United States is long-term and is inexorable because it is driven by a fundamental change in the global balance of economic forces. As long as the United States was the world's predominant economic power and enjoyed a substantial technological advantage over all of its rivals, it was driven by self-interest and by magnanimity alike, to pursue a policy of liberal trade.

The United States is still the world's largest, richest and most dynamic market and all countries are lined up to get into that market. It is going to remain this way for the foreseeable future. But American economic and technological leadership has now been challenged on three successive fronts. It was first challenged by the resurgence of a revitalized Europe from the ashes of the war, which in turn entered into the largest preferential trading block in the world. Then they were challenged by the extraordinary discipline and dynamism of Japan and now most recently by the emergence of the new industrialized countries, particularly on the Pacific Rim. The massive budgetary and trade deficits and dislocations of the 1970's and 1980's have shaken American self-confidence, and at the same time the decline of major industrial sectors, such as steel, automobiles, textiles and machine tools once considered the hallmarks of a major industrial power, has altered America's perception of its self-interest.

At one point last year, American agricultural trade went into deficit for the first time in history, and now there is a growing consensus that international economic conditions will force a contraction in American agricultural production. These developments have altered the very vocabulary of trade in the United States. Whereas only a few years ago, the key words were free, open and liberal, the current lexicon is fair trade on a level playing field. Now even the word competitiveness has become, in the vocabulary of some, a code word for protectionism. A remarkably similar change in outlook, vocabulary, and policy took place in late 19th century Britain, as its earlier industrial and commercial primacy gave way to growing competition from Germany and America, and free trade gave way to the protectionist system of imperial preferences.

These economic changes are influenced by the political arena in the United States. In earlier decades, the 1950's, the 1960's and into the 1970's, the Democrats were the party of free trade and were supported by the unions. The unions were an organized force for free trade. Supported by the farmers, and by the consumers, that was the basic free trade coalition. The Democrats have changed their stance, as have the unions and, increasingly, the U.S. farmers. The old coalition has shattered. As last year's congressional elections demonstrated yet again, the Democrats remain, generally speaking, the majority legislative party in the U.S. They now control both Houses of Congress. The Democrat's electoral base, which is the North East, the South, and the minorities and labour, is likely to continue the political pressures on the Democratic party in a direction of protectionism.

The second misconception permeating the debate is that the choice facing Canadians is between a familiar and a relatively comfortable status quo, and the unknown of free trade. There is no status quo. The world, as always, is on the move. The only difference is that the world is moving far faster now than ever before. It is a point that I have made many times and I ask your forgiveness in repeating it. It is an elusion, if you are talking about the United States, to talk about sticking with the status quo. The current Omnibus Trade Bill, now before the Congress, would substan-

tially raise protectionist barriers against Canadian and foreign producers.

I cannot predict the precise time the trade bill will pass. I cannot tell you exactly what will be in it. The President has been saying that he will try to veto it. I think that it is probably more likely than not that within the next couple of years, an Omnibus Trade Bill or other trade bills will increase current levels of protection in many areas of particular interest to Canada and other trading partners of the United States. One provision in the current bill, concerning the application of countervailing duty law to processed agricultural products, is designed to reverse the U.S. Commerce Department's decision that Canadian pork is not countervailable. You will remember that the United States imposed a duty on Canadian live hogs but not on processed pork. This provision would reverse that decision and it would make sure that dead hogs are treated like live ones. Both would then be liable to a punitive duty.

Another provision in the trade bill would require that the foreign origin of food, and food inputs produced outside of the United States, be clearly labeled at the retail level. Another provision would subject the practices of the Canadian Wheat Board to an investigatory process that could trigger retaliatory action under U.S. trade laws. Another provision would extend the operation of ESP, the Export Subsidy Program, for an additional two years and add an additional $1 billion to the kitty. Still another provision would require that the President extend marketing loans to wheat, feed grains and soybeans, if substantial progress is not made toward meeting an agricultural agreement in the GATT within the next two years. Implementation of that provision would wreak further turmoil in international grain and oil seed markets. There are other provisions. In fact, the Omnibus Trade Bill is now 1,000 pages in length. It is a subject of the largest legislative conference in U.S. history: 199 legislators are attending the Conference, and there are 17 sub-committees. It is a unique phenomenon in U.S. legislative history.

I cannot predict when an Omnibus Trade Bill will be enacted or what it will contain. Some of the most objectionable provisions in the current bill, we hope will be removed. Even if these provisions are not enacted into law this year or next, the forces behind them are unlikely to go away. Many of these provisions about up-stream subsidy, natural resource pricing, down-stream subsidy and dumping charges were in last year's bills, the year before and the year before that. It is a constant pressure in the same direction.

The last myth or misconception that I want to talk about is that the multilateral trade negotiations under GATT, and a bilateral trade deal with the United States, now represent alternatives somehow - indeed, incompatible alternatives. I do not think anything could be further from the truth. As you know, regional free trade areas such as the European Community which is the largest at hand, the Canada/U.S. Agreement, if we have it, is formally sanctioned and foreseen under Article 24 of the GATT. Multilateral trade negotiations, the ones we have been having since World War II, have greatly benefited Canada and the rest of the international trading community. It has provided growth, jobs and economic expansion. The greatest benefit Canada obtained from the successive GATT rounds was in the improved terms of access to the U.S. market, which we got through the GATT. At the same time, in spite of the multilateral trade rounds, our access to European markets, especially for agricultural commodities, has progressively eroded as a result of the erection of a trading block centered on the European Community and its Common Agricultural Policy.

Our access to the Japanese market continues to be effectively restricted to largely unprocessed food products and raw materials. In spite of the GATT rounds, I think it would be foolhardy for Canadians to close their eyes to these developments and to rely exclusively on a multilateral trading system, whose effectiveness is unfortunately eroding and whose undertaking and disciplines are too generalized, vague and narrow in scope to provide an effective break to U.S. protectionism. Of course we want to strengthen that organization, and we are determined to try to do so, but it is unrealistic to think that that organization could serve as an effective brake to U.S. protectionism In fact, it would be the height of folly for a country that sends 75 percent of its exports and a quarter of its total gross national product to a single market, to rely exclusively on a loose multilateral mechanism into which its interests risk being trampled upon in struggles among the economic super powers.

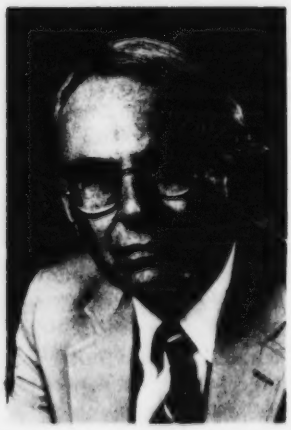
At the same time, the Canadian Government fully recognizes the continuing importance of the GATT, particularly for those sectors such as grains, and oilseeds, where the bulk of our exports go to off-shore markets. Until now, agricultural trade has been largely excluded from effective GATT disciplines. One of Canada's major objectives in the new GATT round, and indeed one of Canada's top diplomatic priorities over the last two years, has been to set and to get an effective agreement on agricultural trade in the current multilateral trade negotiations.

The Canadian GATT negotiating proposal, announced last week, is a comprehensive approach that encompasses all agricultural commodities and all trade distorting measures. It combines proposals for improved access to markets and a reduction in trade distorting measures with the recognition that national policy makers need equitable, predictable and enforceable international rules to guide their agricultural policy decisions. The Canada/U.S. Free Trade Agreement commits the two countries to work together on a global basis, to achieve the elimination of all subsidies that distort agricultural trade. This achievement would be of enormous benefit to North American agriculture in those areas where it has competitive advantage. At the same time, both countries recognize the need to continue assistance to farmers in ways that do not distort international trade in agricultural com-

modities.

Adoption of the Canada/U.S. Agreement will send a vital message and spur the GATT negotiators assembled in Geneva. It will make clear to our negotiating partners that no Agreement can emerge from the current GATT round unless meaningful rules on agricultural trade form an integral part of that Agreement. The Agreement initialed earlier this month was an important achievement, but there are still many hurdles to jump before it comes into force. It is possible that protectionists and inward looking forces in both countries, will mobilize to defeat this historic Agreement. It is a political fact, certainly very visible in the United States, that the forces of protection are generally more focused, more vocal, better organized and financed than general interests that benefit from free trade.

On two occasions over the last century, similar initiatives were defeated by the forces of protectionism. Only hard work and determination on the part of those who prefer competition and challenge to protection and restriction can ensure that this historic initiative comes to fruition. The rest of the trading world is certainly not standing still. The Canadian agriculture and food industry cannot afford to rest on its laurels, if it wishes to survive and prosper in the 21st century. We have an historic challenge before us, which we need to face squarely and confidently.



BIOGRAPHY

ALLAN E. GOTLIEB

Mr. Gotlieb is a Rhodes Scholar, born in Winnipeg, Manitoba, February 28, 1928. He received a B.A. degree from the University of California at Berkeley, M.A. and B.C.L. from Oxford University and LL.B. from Harvard, where he sat on the Board of Editors of the Harvard Law Review. He has been a visiting professor or lecturer at a number of universities including Oxford, the Hague Academy of International Law, and Queen's, Carleton and Ottawa Universities in Canada. He has also been awarded honorary doctorates from five Universities.

Mr. Gotlieb was appointed Under-Secretary of State for External Affairs in 1977. In 1981, he was personal representative to the Canadian Prime Minister for the Ottawa Summit Economic Conference. In December 1981, he presented his credentials to President Reagan as Ambassador to the United States of America.

AGRI-FOOD OUTLOOK AND POLICY REVIEW

Prepared by the Economics and Policy Coordination Branch
Ontario Ministry of Agriculture and Food

I. GENERAL ECONOMY

WORLD OVERVIEW

Many of the conditions for continued economic growth remain favourable; inflation seems under control in most countries; corporate financial positions are generally strong; interest rates have declined markedly in recent years; government budget positions have improved in a number of countries; and labour markets show signs of increased flexibility to adapt to changed market conditions.

In spite of these positive economic indicators, the Organization for Economic Cooperation and Development (OECD), suggests that slow growth, relatively high unemployment and large trade imbalances will characterize the international economy through 1988.

Recent depreciation of the U.S. dollar has not yet improved its large trade deficit and has led to rising inflation expectations and higher interest rates in the U.S. Coupled with growing political tensions in the Middle East, worsening international trade relations and continuing domestic and international debt problems, have increased the uncertainty and the risks of a worsening world economic situation over the medium term.

If the U.S. trade deficit remains high, the U.S. dollar will be under additional downward pressure. This will increase inflation in the U.S. and tight monetary policy to correct the problem will push up interest rates. As a result, demand in the interest-sensitive and heavily indebted sectors of the U.S. economy will fall. A deterioration of the international debt situation would force a further cutback in debtor-country imports. Protectionist trade measures could increase and international reaction to the above negative forces would weaken the prospects for growth and employment in the international economy.

In Japan and Western Europe, currencies have strengthened and inflation is generally below 4 percent, with Japan's at 1.8 percent. Unemployment in Japan is near 3 percent, but in much of Western Europe unemployment continues to be a problem with rates over 10 percent. Economic growth rates, however, are very similar, around 2-2.5 percent, both this year and next.

As a result of recent relatively stable foreign exchange and slightly recovered commodity prices, the economic growth in the Pacific Rim is becoming brighter. Hong Kong, South Korea, and Taiwan are expected to have a growth of over 10 percent in 1987; Singapore and Thailand of about 5 percent; the Philippines, Malaysia, and Indonesia of 2-4 percent. In addition, China's economy is projected to grow by as much as 13.5 percent in 1987, mainly due to the country's continued economic reform.

UNITED STATES

The major policies that will continue to have a significant influence on the North American and international economies over the next few years are the U.S. federal budget deficit, the large trade deficit of the U.S., and the third world debt situation. The expected slow improvement in these three areas during the next couple of years will constrain economic growth and increase the risk of a recession in the U.S.

The new Gramm-Rudman Law, signed in September, lays out a gradually declining series of annual deficit targets to balance the budget by 1993. The budget deficit for fiscal 1987 is estimated at $155 billion by the Reagan Administration.

To help reduce the U.S. trade deficit and ease the increased protectionist measures facing the international economy, the "Plaza" agreement between the U.S., West Germany, Japan, Britain and France in 1985 recommended the following:

- lowering the external value of the U.S. dollar;
- encouraging economic growth in those countries with large trade surpluses; and
- a concerted effort by the U.S. Administration to reduce its federal budget deficit.

Since the "Plaza" agreement, the U.S. dollar has depreciated more than 40 percent against the Yen and more than 37 percent against the Deutschmark. Despite these changes, the U.S. trade deficit grew, while the Japanese and German trade surpluses increased.

In May of this year, the decision by the U.S. Citicorp Bank to increase its reserves against third world loans convinced the banks of other major industrial economies to do the same. Canadian banks increased their reserves against third world loans to between 35 and 40 percent of the $24.4 billion in loans to the 34 countries designated as risky debtors.

On the positive side, the banks are being more realistic in recognizing that the value of these loans is worth less than the book value (50% in secondary markets), and these increases in reserves have allowed the banks to limit their exposure.

The negative side of this adjustment is that internationally-sponsored debt forgiveness programs of any kind appear even more remote. Commercial lending to the third world will be reduced and the process of improving the economies of these poorer countries will be weakened and pushed into the future.

Stock Market Changes

Basic uncertainty regarding the international

debtload, the U.S.'s apparent inability to reduce its trade deficit and fears of increasing interest rates and inflation, leading to a possible recession, have come to expression in the stock market in a very forceful manner. Stock values had been climbing for the past three years to reach a peak this August. A correction in levels was expected because many stocks were "overpriced".

During the week of October 19-23, stock markets across the globe saw record declines and record gains, but the net result, although not final at time of writing, will most likely be a substantial drop in stock values of 20 to 30 percent. To stabilize the markets, major Western governments and banks have reduced their lending rates by 1-1.5 percent. Interest rates in the U.S. were expected to rise approximately one percentage point next year because of increased inflationary pressures and a further depreciation of the dollar. At present it is not certain what will happen to interest rates during the next 12 months. The instability of the markets will be a recurring phenomenon.

CANADIAN ECONOMY

In terms of its economic performance, this has been an excellent year for the Canadian economy. With the first half supported by booming residential construction, strong household-related consumer spending and improving net exports and the second half by the pick up in business investment (4.1% growth), the Conference Board and private economists expect that economic growth in 1987 will average slightly better than 3 percent. A good performance considering the troubles in the oil and gas industry and the government spending constraint.

In 1988, net exports will not likely provide the support they did in 1987 because of slow growth in the U.S. and international economy. As well, residential construction and consumer spending will soften from last year's levels as interest rates rise and consumers begin to replenish their savings. Stronger business investment (4.5% gain), as a result of continued upgrading and expansion in manufacturing and a renewal of capital spending in the mineral fuels sector, will partially offset the decline in the other sectors of the economy. Average growth in 1988 is expected to be slower than this year, but likely just under 3 percent.

Inflation has been steady during the past four years around the 4 percent mark. Increased, indirect taxation and a tightening labour market, especially in central Canada, will help push inflation to the 4.5 percent mark this year, and to the 4.7 to 5.0 percent range in 1988.

While there appears to be no significant internal imbalances in the Canadian economy that would generate an economic slowdown or recession, Canada remains very vulnerable to trade policy decisions in the U.S. The trade protectionist bill in the U.S. Congress, if passed, will curtail expected business investment spending next year and restrict export growth.

The recent large stock market declines around the world are indications of the increased interdependence and uncertainty in these economies. To counteract the slide, the Canadian bank rate dropped 1.57 percentage points, while some Canadian banks dropped their prime rate from 10.5 to 9.5 percent. Interest rates in the U.S. were expected to rise approximately one percentage point next year because of increased inflationary pressures and a further depreciation of the dollar. In Canada, interest rates usually follow the U.S. trend. At present it is not certain what will happen to interest rates during the next 12 months.

The impact of the Free Trade Agreement with the U.S. is not at all certain, except that, if adopted, it will cause shifts in economic activity in the various sectors covered by the Agreement. The federal government has indicated that many jobs will be lost, while many others will be gained.

ONTARIO ECONOMY

According to Conference Board reports, growth in the Ontario economy could exceed 4.5 percent in 1987, thanks to a continued housing boom, large increases in population, strong consumer income gains, major increases in business spending on plant and equipment and a low unemployment rate.

In 1988, higher interest rates will slow down the housing boom and reduce consumer spending. As well, the production of automobiles and parts manufacturing will experience a slowdown. Consequently, the growth of the Ontario economy is expected to slow next year and be closer to the national average (just under 3%).

II. AGRICULTURAL ECONOMY

INTERNATIONAL TRADE

Canada-U.S. Free Trade Agreement

Canada and the U.S. have reached agreement in principle on a free trade accord. The negotiations were headed for failure, but last minute concessions by the U.S. on dispute settlement allowed the deal to be made just before the October 5, 1987 deadline set by the U.S. Congress. The comprehensive deal covers agriculture, automotive trade, cultural industries, customs, energy, financial services, government procurement, investment, quantitative restrictions, safeguards, services, standards, tariffs, temporary entry for business purposes, and wine and distilled spirits.

The U.S. Administration has notified Congress that it will submit a trade Agreement for approval under the fast-track procedure by January 2, 1988. Once this occurs, Congress will have 60 days to decide whether to approve or reject the total Agreement.

The Government of Canada has released a paper that contains the Elements of the Agreement which were agreed to by Canada and the U.S. The Elements of the Agreement, such as the dispute settlement mechanism, will have far-reaching effects on many aspects of the economy. Although the agriculture and food sector will be touched by many elements in the

Agreement, a specific section is denoted to agriculture. The section on agriculture is provided below, along with a summary of the provisions on wine and spirits.

The key elements of the agriculture section are:

- elimination of all tariffs on agriculture and food products over a ten year period
- A special tariff "snapback" provision has been made for fresh fruits and vegetables
- small increases in global import quotas for chicken, eggs, and turkey products
- mutual exclusion from each country's Meat Import Laws
- maintenance of access to U.S. markets for Canadian products containing 10 percent less sweetener
- agreement not to use direct export subsidies in agriculture products traded bilaterally,
- agreement to eliminate Western Grain Transportation Act assistance on agricultural products shipped to northwest U.S. ports.
- agreement on reducing technical barriers,
- agreement to open up licensing and import of various grains, depending upon equivalence of domestic support levels
- mutual desire to cooperate in agriculture trade issues in the multilateral trade negotiations.

In the wine and distilled spirits' section, agreement was reached to end discriminatory practices in wine and distilled spirits. For wine the differential mark-up between the products of Canada and the United States will be eliminated over seven years, with a 50 percent reduction in the first two years. A number of selected distribution and listing practices are grandfathered, including the Province of Quebec's requirements for in-province bottling of wine sold in grocery stores.

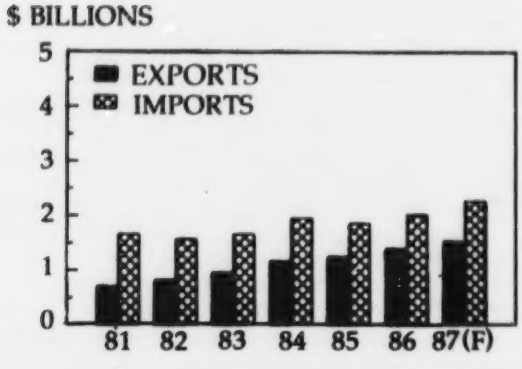
The agricultural package is somewhat modest in comparison to earlier expectations with certain commodity groups reaping benefits, while others may experience significant adjustment costs. Beef and pork producers have welcomed the Agreement. Concerns about the adverse impact of tariff removal have been raised by fruit and vegetable growers, wheat producers, and the supply-managed dairy and poultry industries. Grape growers fear that the Agreement on wine pricing practices will mean the demise of the grape and wine industry in Ontario.

Ontario Premier David Peterson has indicated that the trade Agreement is not in Ontario's and Canada's interests. After the First Ministers' meeting on October 6, 1987, Premier Peterson said Ontario must reject the deal because four out of his six-bottom line conditions have not been met. Premier Peterson was particularly concerned about the proposed dispute settlement mechanism, the automotive industry's provisions and the agricultural package. Some Premiers joined the Government of Canada in supporting the Agreement, while others (P.E.I., Manitoba) voiced significant concerns with the Agreement.

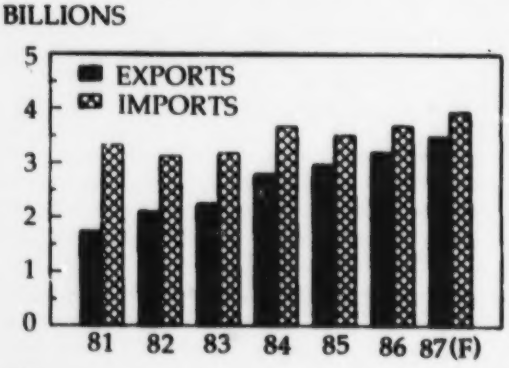
Multilateral Trade Negotiations:

It is now over a year since the launching of the eighth round of multilateral trade negotiations under the General Agreement on Tariffs and Trade. Slow but steady progress has been made towards achieving the objective agreed upon at the launch of the MTN's which included liberalizing agricultural trade and bringing all measures affecting import and export competition under more effective GATT rules and disciplines. The organizational structure for negotiations has now been set in place. The Agricultural Negotiating Committee was established in January 1987 and has had several meetings since.

ONTARIO - U.S. AGRICULTURAL TRADE, 1981 - 1987



CANADA - U.S. AGRICULTURAL TRADE 1981 - 1987



F - FORECAST

When the MTN's were launched, it was agreed that 1987 would be devoted to identifying major problems concerning global agricultural trade and presenting ideas for their resolution. The U.S., Canada, and a number of other countries hope that in 1988 the Agricultural Negotiating Committee will be in a position to present a proposal for negotiations to a GATT Ministerial meeting. Under this timetable, serious negotiations over reducing trade distorting subsidies would occur in 1989 with implementation of commitments starting in 1990.

U.S. Proposal

The first country to table its negotiating proposal for agriculture with the GATT was the U.S. In July 1987, the U.S. made a bold proposal to phase out all agricultural subsidies and import barriers by the year 2000. The U.S. also called for the harmonization of health and sanitary regulations; provided that animal, plant and human health and safety are not placed in danger. The U.S., however, made it clear that it was not prepared to unilaterally eliminate subsidies.

The U.S. proposal had two tiers. First, agreeing on a yardstick to measure government support (e.g. PSE's) along with a schedule for reducing support levels to zero over a ten year period. Second, agreeing on specific policy changes to be made by each country.

The much publicized U.S. proposal received a mixed reaction. At least one study, prepared by former U.S. Agriculture Undersecretary, Dale Hathaway, has been highly critical of the U.S. proposal. He suggested that ending subsidies is unrealistic and a compromise between free markets and government involvement would be a better approach.

A separate study by the USDA's Economic Research Service (ERS) lends some support to Hathaway's claims by demonstrating that agricultural incomes in most trading countries would decline significantly if trade were opened up and subsidies eliminated. Hence, supports on production for domestic use will be needed.

Canadian Proposal

Canada unveiled its views on how agriculture should be negotiated on October 20, 1987. Canada maintains that negotiations have to involve all GATT members, all commodities and all trade distorting measures if they are to be successful. The two-pronged approach advanced by Canada would lead to:

- the provision of a more equitable balance of rights and obligations among GATT members, such that all measures affecting access to markets would be brought under more effective and enforceable GATT disciplines; and
- a major reduction in all trade-distorting subsidies and a major improvement in market access to be phased-in over approximately five years, with the ultimate goal of eliminating all subsidies which distort trade and all access barriers, over a period to be negotiated.

In calculating trade distorting subsidies, Canada advocates giving credit to countries that effectively limit output eligible for support (e.g. supply management schemes). This approach combines the benefits resulting from respecting the effective discipline of Article XI of the GATT with the need to reduce trade distorting subsidies.

The Canadian position is supportive of the U.S. proposal, but does not take such an extreme position. It, therefore, may act as a bridge between the divergent positions of the U.S. and the EC. The Canadian proposal will be discussed at the Agricultural Negotiating Committee meeting on October 26-27, 1987.

EC Proposal

In October 1987 the EC released a draft proposal for negotiating agriculture and also plans to discuss it at this month's GATT meeting. The EC wants to separate the negotiations into two parts. The first long-term goal is to agree on the reduction of subsidies. The second part is a commitment to deal with commodities in surplus such as grains, dairy products and sugar, in the short term. The EC suggests dealing with commodities individually through minimum prices, a market sharing agreement and import controls.

One area where the EC and the U.S. appear to be in agreement is in the use of PSE's as a measuring device for support levels and as a negotiating tool. However, in substantive areas of policy there is an enormous gulf between the U.S. and EC positions.

The MTN's on agriculture are still in the early and formative stages. Widespread recognition of the precarious state of agricultural trade and the need for reform of trade distorting policies holds out hope for success in the MTN. The U.S. and EC are taking up their traditional positions, one as a proponent of free trade and the other of managed trade.

U.S. AGRICULTURAL POLICY

U.S. Proposal to GATT

In early July the United States unveiled a plan to open up world agricultural markets and liberalize world agricultural trade. The proposal called for the elimination of all farm subsidies and trade restrictions over the next ten years. The reform proposal was presented to the member nations of the General Agreement on Tariffs and Trade (GATT). (See the discussion under Multilateral Trade Negotiations).

The U.S. Administration remains prepared to see sweeping changes to its agricultural policies in the current GATT talks, but was not prepared to negotiate its price support programs with Canada in the bilateral trade negotiations. As a result, the agricultural package negotiated with Canada was relatively small.

Trade Bill

The U.S. Senate passed its version of the Omnibus Trade Bill in July, by a wide margin (71 to 27). President Reagan vowed to veto it as he considers it to be too protectionist. The proposed bill has many features

and would affect many parts of the economy. Some of the features are rules to speed up the imposition of tariffs and quotas to assist industries hurt by import competition. Other sections include retaliation measures, means to deal with unfair trade practices, trade adjustment aid, increased funding for the Export Enhancement Program (EEP) and plant closing notices. Other provisions will affect banking, patents, and research and development.

The bill now is in a Conference Committee of the House and Senate. The 200 member committee will likely spend most of the fall attempting to reconcile the two versions. Some analysts suggest that unless the most trade restricting measures are dropped or modified, the President will veto the bill. There is considerable risk here because a number of trade restricting measures in both versions run contrary to the principles of the General Agreement on Tariffs and Trade (GATT).

On a positive side, both versions contain provisions beneficial to agriculture. There are provisions to implement tariff reductions and measures strengthening food aid and economic assistance as means for boosting markets for U.S. exports.

Farm Credit System Restructuring

Restructuring the Farm Credit System (FCS) is one more thorny problem before Congress. The FCS is 70 years old and consists of 12 districts, containing 37 regional banks, serving some 450 local farmer-owned associations. Its losses have grown in the last two years. Unless something is done, massive failures seem likely.

The Reform Bill, proposed by the House of Representatives' Agriculture Sub-committee in August, could lead to the biggest federal bail-out in history. Unfortunately, the committee failed to attach a price tag to it. Earlier in the year there had been calls for up to $6 billion in aid.

The Senate is also addressing the problem and they are considering providing $2.8 billion immediately and making another $1.2 billion available over the next two years. According to Reuters, Senators remain divided on how much local control should be extended to the system.

Budget

Last year, after the automatic cutback feature of the Gramm-Rudman Act was found unconstitutional, Congressional resolution was required in order to attempt to trim $1.2 billion from the fiscal 1988 budget. This attempt has fallen in limbo as lawmakers work to repair the Gramm-Rudman Law.

If this level of budget restraint is imposed, then the agriculture committee is likely to turn to other measures in order to find the funds. Some of these are: possibly implementing the 0/92 option for 1988 crops; freezing or raising loan rates for major crops; tightening payment eligibility rules; increasing acreage reduction; and selling corn to utilities.

The 0/92 plan would provide eligible farmers the ability to receive 92 percent of their income subsidies regardless of how much was planted. This proposal effectively separates or "de-couples" subsidy from production. Currently, farmers must plant 50 percent of their program acreage in order to receive 92 percent of their payments.

The Administration has expressed approval of the proposal, but passage is not assured. If enacted, the USDA estimates savings could reach $50 to $130 million in fiscal 1987-88; and $280 to $630 million in fiscal 1988-1989.

EC AGRICULTURAL POLICY

The Common Agriculture Policy

Decisions concerning the current and future direction of European agriculture policy have become, perhaps more than ever, the most trying of those facing the European Commission. On the one hand there is the spiralling cost of running the Common Agriculture Policy (CAP). On the other, there is the seemingly well-fuelled momentum of the current Uruguay Round of GATT negotiations in which agriculture trade will be addressed. Together they have given good purpose to the Commission's latest attempt at cajoling the European Farm Ministers into serious and meaningful policy reform.

The Commission and the Council of Farm Ministers are currently engaged in discussions over financing proposals, tabled in late July. Designed on a two-track basis, the plans outline reforms to the Community's income base, while substantively disciplining budgetary expenditures. It is hoped that a progressive switch to an income base, centered around the Gross National Product of each member state in addition to current import duty revenues, will lead to a more equitable sharing of the Community's financing between the more and less wealthy members.

Two important measures are outlined for budgetary control on agriculture policies. The first call for preset ceilings to be introduced on spending in each main commodity sector covered by the CAP. Support payments through intervention purchases would be halted if this level of expenditure was reached. Second, arrangements would be made to switch from paying member states for farm support expenditure in advance to payment in arrears. This measure would at least provide for more accurate reimbursements based on actual payments, rather than on estimates of expected expenditures.

These limits on expenditures are complemented by other commodity specific measures including:

- The continuation of the milk quota system beyond the end of the temporary regime in 1989.
- More strict penalties related to the co-responsibility levy for grain producers.
- Reductions in guarantee payments for wine in both its compulsory and voluntary distillation schemes.
- A much contested proposal for a consumption tax on vegetable oils and fats.

The overall thrust of these initiatives is to achieve immediate relief for the Communities' budget and some discipline on production and future spending over the longer haul. It appears that these reforms could go the distance in restricting increases in CAP expenditure to more modest increments. However these measures do not directly address the possibility of future reductions in farm spending and support. Indeed, these reductions will have to come through a more fundamental policy reform.

Details of EC GATT Negotiating Proposal

In early October, the Commission released details of its proposed plan for negotiating agriculture trade in the GATT. The EC Council of Ministers has endorsed the plan which is expected to be tabled in Geneva in late October. Until then the exact details of the plan will not be known. (See the discussions under Multilateral Trade Negotiations.)

While the broad direction of the EC proposal is similar to the U.S. and Canadian proposals, many issues dealing with the magnitude of support reductions and the speed of implementation appear to be less rigorous in the EC draft. The EC continues to express its demand that the negotiations on agriculture do not become isolated from, nor advance more quickly than, negotiations in other sectors.

PACIFIC RIM COUNTRIES

Agriculture oriented countries are becoming more and more watchful of the global economy, although domestic food production is often the top priority. In Thailand, the agricultural policy calls chiefly for measures to strengthen the production and marketing structures and make them more responsive to the changing world economic and trade situation.

The major thrust for the agricultural sector in Malaysia is to increase the production of palm oil and cocoa while sustaining that of rubber and timber. The country is also planning to diversify away from the traditional non-food export items and emphasize the production of fruit and vegetables, poultry and eggs, and fishing.

The Government of Indonesia's agricultural policy is designed to achieve self-sufficiency in food crop production and to continue to expand the production of export commodities. The policy is aimed to increase rural income and employment and to improve foreign exchange reserves.

Despite its political unrest, the Philippines is in the process of a land reform program that would distribute nearly 5.4 million hectares of agricultural land to about 2.5 million landless farmers. Other major policy areas include phasing out price controls, centralizing agricultural agencies for better services, encouraging agricultural exports, and adjusting exchange rates for competitive pricing in the international markets.

In China, no new major policy initiatives have been in place so far during 1987 and will remain so at least until the National Congress of the ruling Communist party is underway on October 25 of this year. Two major goals, however, are set by the State Council for China's agricultural production over the next ten years. One is to guarantee an annual per capita grain availability of 400 kilograms, and the other is to narrow urban-rural income differentials. This means that the Chinese government will strive to raise grain prices, while ensuring enough domestic grain for everyone.

CANADIAN AGRICULTURAL POLICY

The federal government is still committed to a market-oriented approach to agriculture, with an adequate support structure based on tripartite stabilization plans and efficient supply management.

As one of the 24 members of the Organization for Economic Development (OECD), Canada co-signed the principles of world agricultural reform this past spring. These principles are designed to dismantle trade-distorting agricultural subsidies and to liberalize agricultural trade. To achieve this, countries committed themselves to bring demand and supply in closer balance, allow market forces to determine resource allocation, while at the same time temporary measures might be taken to minimize distortions and ease adjustments. Farm income support should be direct and independent of commodity price guarantees or levels of production.

The federal and provincial Ministers of Agriculture, in July 1987, closely examined new policy thrusts to expand the extent of the provinces' participation under the tripartite stabilization program. Under such plans, producers insure a level of return for their commodity through a price support formula. The formula may guarantee a portion of the historical margin between cash costs and market prices for the commodity, or guarantee a portion of the indexed moving average price for the commodity in recent years. These plans are called tripartite because the producer, and the provincial and federal governments contribute equally to finance the plans. As of mid-October, nine plans are operational. The table below lists all plans with the potential coverage of the total Canadian production. The implementation of these plans will stabilize producer incomes.

Plan	Pay Period	No. of Provinces	Potential Coverage % of Canada
Slaughter Cattle	Quarterly	3	73
Feeder Cattle	Quarterly	3	70
Cow-Calf	Annually	3	52
Hogs	Quarterly	4	64
Lamb	Quarterly	5	64
White Beans	Annually	1	93
Coloured Beans	Annually	1	80
Apples	Annually	5	98
Sugar Beets	Annually	2	100

Financial security is still a major concern in all areas of Canada. Farm Debt Review Boards are well established, but Canada's Farm Credit Corporation, the major farm lender is in difficulty. The Standing Senate Committee on Agriculture and Forestry is studying the effectiveness of existing government policies and programs to assist the family farm in its financial needs up to the year 2000. Its report is due January 31, 1988. Last fall, the federal government announced a one-time assistance of $1 billion to agriculture, called the Special Canadian Grains Program. Ontario grain growers have collected some $110 million under this program.

The Government of British Columbia is dissatisfied with the current operations of all supply management plans (industrial milk, turkey, eggs and chicken). It considers that the plans inhibit the growth opportunities of B.C.'s producers. The government has stated its intention to withdraw from these national plans when time for notification is due. The first test will be mid-December, the deadline to withdraw from the Chicken Plan (at the end of 1988).

Such action could impair the proper operation of these plans. However, since B.C.'s current share of the national production is relatively small (3.6% for industrial milk to 10.4% in chicken), such action would not invalidate the import controls under Article XI of the GATT.

In June, the Minister of Finance tabled a tax reform package designed to alter the tax structure in line with current needs. One proposal is to replace the existing manufacturers' sales tax (MST) with a business transfer tax (BTT) to a value-added tax (VAT). Currently, food products except snack foods, soft drinks, confectionery and pet foods are exempt from MST. Hearings are now being held across Canada to get reactions to these new tax proposals. At this time, it seems unlikely that a BTT or VAT will be applied to foods before 1990.

ONTARIO AGRICULTURAL POLICY

The Ontario Government has made financial stability in the agri-food industry one of its major thrusts during the past two years. Interest rate relief programs have been updated and expanded and the Beginning Farmer Assistance Program has been revised and is now called Farm-Start, which will become effective in January 1988. Tripartite stabilization coverage was expanded. Ontario participates in all plans available for products produced here. The province's own stabilization plans for corn, soybeans, barley, winter wheat, oats, canola, and fresh market potatoes, are continuing to provide market price protection until tripartite plans are developed for them. In addition, the province and producer groups cooperated on a national basis to ensure that the 1986 Special Canadian Grains Program was implemented on a national level. These efforts are again proceeding for one proposed 1987 plan.

An additional $50 million Farm Management, Safety and Repair Program could benefit 20,000 farmers with grants of up to $2,500 in specific on-farm safety projects, on-farm feed and storage facilities, replacement parts for field machinery and participation in the Farm Management Analysis Project.

The strategic plan for Ontario's Ministry of Agriculture and Food (OMAF) consists of four key components:

- **Competitiveness:** OMAF is coordinating marketing and research efforts to enhance sales in domestic and foreign markets, provide strategies to keep the sector adaptable and orient services to maintain high quality and nutritious food products.
- **Financial stability:** All participants in the agriculture and food industry require a basic level of stability to plan and cope with the rapid changes in the marketplace. OMAF develops and provides a safety net of financial services to meet the unique needs of farmers and others in the industry.
- **Education and training:** Technical and management abilities must be developed to ensure continued competitiveness and appropriate resource management. Informing consumers and providing continuing education to all segments of the sector are further ways of fostering excellence in agriculture.
- **Soil and water management:** Soil and water sustainability relies on basic research and technology transfer to producers, development of a 'stewardship' focus in soil and water management by the industry and other agencies, and new techniques for proper handling of soil and water-related practices.

The Ministry has announced a pesticide reduction program, which is designed to reduce the use of pesticides on Ontario farms by 50 percent from current levels. This initiative is expected to improve the quality of the environment. Alternative management techniques will make lower levels of pesticide applications possible.

III. AGRICULTURE AND FOOD OVERVIEW OF ONTARIO

PROCESSING, DISTRIBUTION AND RETAILING

Introduction

The substantial adjustments, financial and human, in the North American agriculture sector during this decade have overshadowed the ongoing dynamic changes in the processing, distribution and retail sector (PDR). During 1987, the North American PDR sector continued to adapt to the challenges of a fragmenting consumer marketplace, and to the equally challenging pace set by the introduction of new technologies. Although media attention has not focused on the PDR sector to the same extent as on agriculture, it too has found periods of instability.

The PDR sector has undergone similar adjustments

and rationalization brought on by the earlier recession. The sector has responded through a significant increase in mergers/buy outs/divestments, a sustained effort to introduce even more new products, and a refocus on quality and service as exemplified by the top firms.

The recent Free Trade Agreement between Canada and the U.S., if implemented, and the anticipated success of the multilateral trade negotiations should open and close doors to this sector. The underlying dynamics in the industry will not disappear because of these agreements (or lack of them). But until the international agriculture and food marketplaces can be thoroughly realigned to properly reflect market realities, there will be continued instability in this sector of the Ontario and North American economy.

Globalization and Fragmentation

The PDR sector in North America can be characterized by the dichotomy of the globalization of this industry concurrent with the fragmentation of the North American food and beverage markets. Trends in food consumption patterns, service styles, food and beverage packaging, food quality and safety concerns, and even eating habits (e.g. the now commonplace acceptance of the "grazing" syndrome of affluent, urban populations) are recognized as global phenomena. While these and other trends occur at varying rates throughout the world, such trends affect all consumers, and all segments of the PDR sector. As important, firms in this sector are facing increased competition, domestic and internationally, from other firms within and beyond each segment of the sector.

This increased internal competition reflects the fragmentation of the food and beverage market at the consumer level. Enhanced technology and information have reduced global barriers. But in combination with increased consumer incomes, these forces have also created numerous, even contradictory, market niches. Food and beverage retailers and food service firms now compete for regional, demographic, lifestyle, nutrition or ethnic markets, or variations on these and other criteria.

The results of such dichotomies can be seen in the burst of new product introductions and retail styles during the 1980's, followed by the merging of these retail styles between different food retailing segments. The expansion of salad bars in fast-food chains, as well as delis or in-store bakeries in retail food chains are examples of such market niches and merging retailing styles. It should be noted that many of these initiatives (packaging) and retail styles were developed outside of North America. Yet, the same large food firms built up over the last decades have had to divest units, engage in leveraged buy outs (Safeway, Beatrice), retrench into acknowledged markets or renew themselves through internal management efforts, many of which seem aimed at entrepreneurial activities. The increasing success of specialty food stores or independent grocers throughout North America, in spite of large multinational competitors, has not been lost on all participants.

Trade Policy Challenges

Each major developed country or trading bloc recognizes the importance of the value-added sectors - goods or services - in international trade. Indeed, the limited growth in raw product demand in developed nations has resulted in a continual upgrading of the quality and convenience in service of the food or beverage product sold. Moreover, such efforts have become part of many countries' export market development efforts.

These public efforts are matched within the private sector by the transfer of technology, market knowledge, management styles, and wealth among PDR sectors of various countries. The changing composition of global firms involved in the food retailing or alcoholic industries are examples of these private sector responses to changed international economic conditions and access to markets. The recent significant investment by John Labatt Ltd. into the U.S. market, or the purchase of Maple Leaf Mills by Hillsdown Holdings PLC reflects the growing internationalization of the PDR sector by the major food firms.

The present Canada-U.S. Free Trade Agreement and the proposed multilateral trade negotiations pose new challenges and opportunities to the Canadian and Ontario PDR sectors. The developments of these two trade thrusts and the increased awareness of the costs of U.S. protectionism are well identified throughout the sector. The differing views of the industry and its segments have been made known to the Trade Negotiations Office and federal/provincial government officials.

The proposed Agreement has generated considerable response from various groups in this industry. Views range from acceptance and approval of the Agreement, to complete rejection of the present terms of the Agreement. However, many firms and associations have endorsed the Agreement based on certain conditions, interpretations, and assurance of the anticipated federal actions to allow domestic firms to compete.

The Agreement and the initial round of the multilateral trade negotiations will involve a new round of challenges and opportunities for the PDR sector. The competitiveness of this industry within this new trade environment is quickly becoming the major issue, as firms, and farm groups must decide to realign their present market strategies to adjust to the new terms and conditions of trade.

The underlying economic forces shaping the PDR sector will not change dramatically due to these trade policy developments. But, the importance of an appropriate trade policy for the PDR sector is becoming fully accepted as another policy variable for industries and firms to accommodate. Moreover, these trade policy challenges will, if properly managed, increase

the understanding of the important linkages between the primary, secondary and tertiary sectors of the Ontario agriculture and food industry. However, these linkages and cooperative efforts may be strained as each sector perceives only the short-term gains or losses that must be balanced by actions in another section of the industry.

Conclusion

Over the next years, the PDR sector will continue to experience increased competitive pressures. Market niches for specialized production will offer some opportunities for market growth, but the PDR sector in general will face increased domestic and foreign competition. The decision by Cargill to build a new meat packing plant in Alberta, or the recent Gainer's purchase of Z and W Foods (Toronto) are evidence of this increased competition on the Canadian "mature" meat industry.

Trade policy in combination with fundamental economic characteristics such as technology, education, as well as demand, and supply forces will alter the ability of the sector to compete. A number of firms seem prepared to accept an ever-changing set of new conditions, while others reject the seemingly selective opening up of the Canadian market without, at this time, appropriate adjustments.

The instability that has affected the general economy will be felt on the PDR sector. However, the strength and dynamics of this sector should ease the adjustments. Still, there will be an increased need to link the interests of all segments of the agriculture and food industry to better meet the challenges and opportunities created by the trade policy shifts.

FARM INCOME

Revised projections of farm income and expenditures for 1987 were released by Agriculture Canada in cooperation with Statistics Canada and the provincial Ministries of Agriculture during the summer.

The realized net farm income of Ontario farm operators (from farming operations) in 1987 is projected to be $1.48 billion which represents an increase of 4 percent, compared to 1986 and 52 percent compared to 1985. This figure takes into account the impact of the Special Canadian Grains Program (SCGP), but excludes the value of changes in farm inventories.

Gross returns for 1987, as measured by farm cash receipts, are projected to be $5.49 billion, up 1 percent from 1986. This figure includes about $117 million paid to Ontario producers from the SCGP.

Cash receipts from crops are forecast at $1.68 billion in 1987, a decrease of about 12 percent compared to last year (excluding SCGP payments). This decrease is due mainly to reduced production from this year's winter wheat and tobacco crops and lower prices for corn and soybeans. Unlike a year ago when excessive rainfall significantly reduced the seeding of winter wheat in the province (to about half of the previous year's level), this fall has seen the planting of the new winter wheat crop progress well.

Fruit crops generally performed well in 1987 with bumper crops of peaches and tart cherries. Both apple and grape production were down slightly from the large crops of 1986. Excessive heat this summer caused rapid maturing in a number of vegetable crops, resulting in some losses to cucumbers, corn, peas and tomatoes. Yields and quality of potatoes, onions, lettuce and celery have been good. Overall, it is expected that receipts from the sale of vegetables in 1987 will be steady with those of last year, while a slight increase in sales value has been forecast for fruit.

Gross income from the sale of livestock and livestock products is projected to be $3.45 billion this year, an increase of about 1 percent over the 1986 level. A drop in cash receipts from the sale of hogs (lower prices) is expected to be more than offset by increases in the dairy and poultry sectors. Income from the sale of cattle and calves should show little change compared to last year. It is noteworthy that, as of July 1, Ontario's inventory of cattle and calves stood at 2.25 million head, the lowest level in this century.

Ontario farm operating expenses and depreciation charges for 1987 are forecast to be $4.08 billion, down 1 percent from 1986. This would mark the third year in a row that expenses have shown a decline. The largest drops are likely to be in expenditures on feed (lower costs), interest payments, fertilizer and fuel. Some increases are expected in wages to labour (higher wage rates), expenditures on feeder cattle and machinery repair expenses. Total depreciation charges are expected to show a slight increase of about 1 percent.

Farm Price Outlook for Major Commodities, 1987:IV to 1988:III

Commodity	Quarter			
	87:IV	88:I	88:II	88:III
A1,2 steers ($/cwt.)	87-91	87-91	89-93	87-91
Index 100 Hogs ($/cwt.)	75-80	70-75	65-70	61-66
Index 100 Hogs ($/100 kg)	165-176	154-165		
			143-154	135-146
Chicken ($/kg)	1.02	1.03	1.04	1.05
Turkey ($/kg)	1.37	1.36	1.37	1.38
Eggs ($/doz)	.93	.94	.94	95
	- $/tonne -			
Grain Corn (Chatham area)	83-88	85-90	88-92	85-100
Barley (Ontario)	78-82	80-85	85-90	80-95
Soybeans (Chatham area)	225-235	228-233	230-240	230-240
	- $/hectolitre -			
Fluid milk price	52.51	52.51	53-55	53-55
Industrial milk target support price	46.48	46.48	46.48	46.48

Source: Economics and Policy Coordination Branch, October 20, 1987

FARM INPUTS

Farm Machinery

The farm machinery industry continues to be plagued by a weak demand. For the most part, unit sales in Canada for the first eight months of 1987 were lower than the first eight months of 1986. The Canadian Farm and Industrial Equipment Institute reports that as of the end of August, unit sales for all types of tractors were down by 6 percent from 1986 levels.

Unit sales of all other types of equipment are running behind expectations as well.

For 1988, the combination of abundant supplies and weak demand will continue to exert downward pressure on prices. There are, however, some indications that prices may edge upward in the near future. Modest increases in net farm income and improved cash flows of farmers could stimulate sales. It is expected that market forces in the used equipment sector will have a significant impact on the prices for new equipment.

Since the spring of 1987, values of used equipment have increased, marking the end of a huge supply of late model tractors and combines being offered at attractive prices. As the inventories of used equipment gradually diminish, shortages are expected to occur, which will encourage a stronger market for new equipment. Manufacturers, having been caught in the downturn in sales and excessive supplies, will likely work with lower field and factory inventories. This in turn will signal the end to the manufacturers' policies of offering huge price discounts as a means of clearing inventories.

Fuel

In 1986, oil prices dropped. In most areas farm fuel prices followed suit. For example, in Ontario, farm diesel prices fell by about 28 percent and gasoline prices about 26 percent. Current prices are up only slightly from last fall's levels.

For the remainder of 1987, and into 1988, farmers can expect some very modest increases in fuel prices. However, the magnitude and direction of price movements will depend on the ability of OPEC to curb its production of crude oil. In December of 1986, OPEC countries agreed to limit production, effectively halting the dramatic downturn in crude oil prices. It is estimated that world demand for OPEC oil is 18 million barrels per day. On June 25, OPEC targetted production for its members at 16.6 million barrels, but it was unable to reach this level. By August, huge surpluses had developed. Current production is estimated at about 18 to 18.5 million barrels per day. In September four of Canada's largest oil refineries reduced their purchase price of crude oil in response to the surpluses.

Pesticides

Total expected use of pesticides in Ontario and Canada is expected to be down by as much as 5-10 percent in 1987, because of the somewhat reduced crop acreages and more stringent application rates. Average farm level prices are expected to be slightly above last year's prices.

Environmental issues and concerns continue to impact on the agricultural chemical industry and manufacturers are concerned about the high cost of developing new products and the increased restrictions that have been placed on them by all levels of government. Pesticides falling in this category are 2,4D, Plictran and Lasso.

Uniroyal Ltd. announced that the herbicide Dyanap will no longer be made available for use in Ontario because U.S. studies indicate the product may be unsafe.

The Environmental Protection Agency of the U.S. is also initiating a special review of certain fungicides. The fungicides important to agricultural production are Maneb, Mancozeb, Zineb and Metiram, broad spectrum fungicides used in present crop damage from fungi and to protect crops already harvested from deteriorating in storage.

The Ontario Government has announced a pesticide reduction program, details of which will be available this winter.

Fertilizer

On a nutrient basis, fertilizer usage for the 1986-87 fertilizer year, which ended on June 30, was down by 6 percent from a year earlier. This marks the second straight year of decline from the record year recorded in 1985. The Canadian Fertilizer Institute estimates that the total domestic consumption is at 2.19 million nutrient tonnes, compared to 2.33 in 1985-86.

With the exception of certain nitrogen products, domestic supplies are lower. However, they are still adequate to meet crop requirements. Manufacturers' inventories of nitrogen products were 7.1 percent higher than the previous year, while phosphate and potash inventories were 44.4 and 25.5 percent lower than the previous fertilizer year.

The increased world fertilizer demand, combined with stable or declining prices, has spurred Canadian fertilizer exports. Shipments by Canadian manufacturers to domestic and foreign markets increased marginally from 15.6 to 16.5 million tonnes. Nitrogen shipments increased by 4.5 percent.

Phosphate shipments were down by 13.9 percent and potassium shipments increased by 8.6 percent.

For most of 1987, farm fertilizer prices were lower than a year earlier. Since 1980, the fertilizer industry has undergone immense structural changes. In spite of plant closings and idled capacity, Canadian manufacturers are still plagued by excess capacity and reduced domestic demand. For the next few years, manufacturers are expected to rely more on exports, in line with projections for modest increases in the world demand for fertilizer products. Farm retail prices are expected to remain stable.

Farm Credit

Current data suggest that there will be a slight improvement in 1987, in farm cash receipts and net farm incomes. Nonetheless, the outlook remains bleak for cash crop producers, particularly those in the West.

Throughout 1987, farmers continued to be under pressure to consolidate their financial positions by partial liquidations and debt refinancing. The unfavourable farm income levels, high real interest rates, as well as the more stringent security and cash flow,

all have contributed to a reduced demand for credit, which is expected to continue to 1988.

Credit supplies continue to shrink. The Farm Credit Corporation has forecast total farm credit extended at about $7.0 billion for 1988, down from the projected 1987 figure of approximately $7.5 billion and estimated $7.7 billion for 1986. The total amount of credit outstanding is expected to decline by 8 percent in 1988, to about $19.0 billion, as farm lenders continue their conservative lending practices and apply more stringent lending criteria to their loans.

Farm lenders have continued to experience difficulties in 1987. While net farm incomes, particularly in the livestock sector have improved, many farmers are still suffering severe cash flow shortages. As a result, many lenders are coping with substantial loan losses. For example, the Farm Credit Corporation (FCC), for the first time in history ended its 1986-87 fiscal year (ending on March 31, 1987) with a balance sheet that showed a negative net worth. The federal government, while committed to Canadian agriculture is also committed to reducing the federal deficit. According to FCC officials, federal government direction indicates that the corporation must work towards a financial recovery plan that focuses on the restoration of financial self-sufficiency as well as actions to minimize operating losses.

Land

The somewhat improved outlook for Canadian farm income has tended to stabilize farmland markets in most parts of the country. In Ontario, for example, realtors are reporting a stable market for farmland with prices about the same as last year.

Farm cash rents appear to be following trends in land values. According to preliminary data collected by the Economics and Policy Coordination Branch, OMAF, average per acre cash rents on a province-wide basis are approximately 20 percent lower than in 1982, but are about the same as in 1984. The 1987 values vary considerably among regions, but still remain substantial for certain specialty crops in southwestern Ontario.

IV. FIELD CROPS

OVERVIEW

Currently, the field crop harvest in the northern hemisphere is coming to an end and the 1987-88 marketing and consumption year has started. Coming into this year are above-average storage holdings of all grains and most oilseeds, which have weighed heavily on past season's prices. Most world stocks are held by the U.S., and by the European Communities. Both have tried to reduce their surpluses, maintain their producers' incomes and not drastically reduce world prices. These policies have resulted in large government expenditures to their agricultural sectors, while the world level prices for grains and soybeans in terms of U.S. dollars have declined for the past three crop years. Internationally, these prices have dropped even more than in North America, because the U.S. dollar has weakened considerably during that time.

Low world grain prices, coupled often with export subsidies, have made it impossible for many farmers in third world countries to compete. Since their governments do not have the means to stabilize the income of their food producers, these farmers have suffered more than their counterparts in the industrialized world.

Government policies which will lead to more market sensitivity (i.e. less protectionism, and fewer income transfer payments) are viewed as beneficial to world agriculture in the long run. To quote U.N. Food and Agriculture Organization Chief, Edward Saouma: "Trade in agricultural commodities remains in a state of profound crisis. Agriculture has been deeply scarred by protectionist measures and export subsidies on a scale not seen for over half a century"

Net Farm Income from Farming Operations, Ontario, 1984-1986 and 1987 Projection

	1984r	1985r	1986r	1987p
	- $'000, 000			
1. Total crops	1,921	1,788	1,919	1,683
2. Total livestock and products	3,207	3,252	3,405	3,451
3. Othera	198	116	135	355
4. Total cash receipts (1+2+3)	5,326	5,157	5,458	5,490
5. Income in kind	70	66	67	71
6. Realized gross income (4+5)	5,396	5,222	5,525	5,561
7. Operating and deprec. charges	4,291	4,245	4,103	4,078
8. Realized net income (6-7)	1,105	977	1,422	1,483
9. Value of inventory changes	69	76	(208)	n/a
10. Total gross income (6+9)	5,465	5,298	5,317	n/a
11. Total net income (10-7)	1,174	1,053	1,214	n/a

a Includes also subsidies and deficiency payments.
p Projection r Revised. n/a Not available.

Sources: Statistics Canada, Agriculture Canada and Economics and Policy Coordination Branch, OMAF.

COARSE GRAINS

Situation

The fundamental supply-demand situation suggests that the global coarse grain market in 1987-88 may well be in for a modest improvement over 1986-87. However, the likelihood of a significant improvement in prices is remote.

Global carry-in stocks for the 1987-88 crop year are 213 million tonnes, up 16.7 percent from year earlier levels, but global production is expected to be down 4.1 percent to 801 million tonnes. Specifically, production decreases in Thailand (-25%), the U.S. (-14%), India (-14%), Eastern Europe (-9%) and Brazil (-9%) are expected to more than offset production increases in Argentina (+18%), South Africa (+10%) and the U.S.S.R. (+8%). Because of the decline in production in 1987-88, global supplies are expected to be down slightly from 1986-87.

Global use of coarse grain is expected to be up 1.7 percent in 1987-88 as compared with 1986-87. This is due, in part, to the fact that global livestock and poultry population, and therefore grain consumption requirements, are expanding in response to low grain

prices. In addition, lower global wheat supplies in 1987-88, mean that relatively more coarse grain and less feed wheat will be used to feed livestock and poultry. A continued decline in the value of the U.S. dollar will also help stimulate demand.

Because of the reduced global supplies and expanded global use of coarse grain in 1987-88, year-end global stocks are expected to be down 8.2 percent to 196 million tonnes. This may provide the market with some potential for upward movement in prices as the 1987-88 crop year progresses. In particular the U.S. market could provide some strength for prices, because free stocks (as opposed to stocks held in government programs) are down 39.0 percent from year earlier levels.

Outlook

However, any price improvement must be considered in terms of: 1) the very large stocks that currently exist in the Commodity Credit Corporation (CCC), and Farmer Owned Reserve (FOR) programs in the U.S.; 2) the large excess production capacity that currently exists in the U.S. grains sector; 3) lower loan rates in the U.S. in 1988-89; and 4) the trend towards higher yields.

Without an additional paid acreage diversion on the 1988 crop, or a new program to get inventories into the market, it is not clear that 1988 U.S. supplies will be reduced by an amount that is large enough to sustain higher prices.

The loan rate for the 1988 U.S. corn crop has been announced at U.S. $1.74 per bushel, or about Cdn. $90 per tonne, 4.4 percent lower than the 1987 loan rate. The effect that this has on market prices will depend mainly on the development of the 1988 crop in the U.S. There is some fear that, if the White House and Congress do not find a solution to trimming the budget deficit by November 20, the Gramm-Rudman measures will go into effect. In that event, loan rates and deficiency payments would be reduced by another 8.7 percent. In other words, the U.S. corn loan rate in 1988 could be as low as U.S. $1.59 per bushel. If this does happen, and if corn supplies in 1988-89 are not reduced significantly, the effect on Ontario prices could be significant.

The 1987 corn crop in Ontario will likely reach 4.78 million tonnes, up 1.6 percent from 1986. With low stocks to begin the 1987-88 crop year, and the countervailing duty in place, corn supplies in Ontario will be the lowest they have been since the beginning of the decade. This means that corn prices in Ontario will likely be above the normal relationship between Ontario and U.S. corn prices for at least another year. However, a record Ontario barley crop of 784 000 tonnes, and large supplies of low-priced western feed wheat, oats and barley will limit the premium that corn can extract from the market.

The supply of other feedgrains and the substitutability of those feedgrains in use are the factors that have limited the countervail on U.S. corn from raising Ontario corn prices by the full amount of the countervail, which is to-date, U.S. $0.85 per bushel. On October 20, 1987, the Canadian Import Tribunal recommended to the Minister of Finance that the countervail be reduced to Cdn. $0.30 per bushel, because it felt that any amount over that level was not in the public interest. Under the present market situation, it is likely that a reduction in the level of countervail to Cdn. $0.30 per bushel will not reduce the effect of countervail.

In summary, corn prices in Ontario in 1987-88 will likely be in the $88 to $98 per tonne range, with prices in Chatham averaging $3 to $5 per tonne lower. Barley prices in Ontario will remain competitive with corn and western feed grains and will likely be in the $80 to $90 per tonne range. These forecasts assume that the Gramm-Rudman Act will not be implemented.

OILSEEDS

Situation

According to USDA, global production of oilseeds in 1987-88 is expected to be up from 1986-87, with rapeseed (+13%), cottonseed (+10%) and palm kernels (+10%) leading the increase. Global crush of oilseeds is expected to increase in 1987-88 by 2 percent from year earlier levels. As a result, 1987-88 year-end stocks of oilseeds are expected to expand by 5.5 percent. This situation will keep downward pressure on oilseed and oilseed product prices during the 1987-88 crop year.

Global meal production (44% protein) from oilseeds and fish in 1987-88 is expected to be up 1.5 percent from 1986-87. However, global consumption of meals in 1987-88 is expected to be up 1.8 percent from 1986-87, due mainly to the global expansion in livestock and poultry inventories, i.e. consumption requirements. Therefore year-end stocks of meals will be drawn down by 4.5 percent from year earlier levels.

Global edible oil production from oilseeds and fish in 1987-88 is expected to be up 3.0 percent from 1986-87. Global consumption of oils from oilseeds and fish in 1987-88 is expected to increase by 3.3 percent over 1986-87. Therefore global ending stocks of oils in 1987-88 are expected to decline by 2.2 percent from year earlier levels.

In summary, even though year-end stocks of oils and meals are expected to be drawn down slightly in 1987-88, the increase in supplies of oilseeds will likely keep downward pressure on oilseed prices. In particular, the mix of oilseeds suggests that the oil market will remain depressed.

Soybean production, which accounts for about 50 percent of global oilseed production, is expected to expand by 3.2 percent in 1987-88 to 101 million tonnes, with major increases in production coming from Mexico (+19.7%), Canada (+14.5%) and Argentina (+13.7%). Notwithstanding the anticipated global production increase in soybeans in 1987-88, lower carry-in global stocks of soybeans, as compared with year earlier levels, will mean lower global supplies of soybeans in

1987-88 as compared with 1986-87. In view of the situation for soybeans and the relatively large supplies of other oilseeds, some degree of substitution can be anticipated in the market, in favour of other oilseeds. This substitution will keep usage in check and will keep soybean prices from rising relative to other oilseeds.

In the U.S., carry-in stocks of soybeans for 1987-88 are expected to be down 17.9 percent from year earlier levels. Production of soybeans in 1987-88 is expected to be 54 million tonnes, up 1.4 percent over 1986-87, and supplies of soybeans are expected to total 65 million tonnes, down 2.8 percent from 1986-87. Total use of soybeans in 1987-88 is expected to decline by 2.3 percent as compared with 1986-87 levels. As a result, 1987-88 year-end stocks of soybeans in the U.S. are expected to decline from the previous year's levels by 6.0 percent. The effect of this drawdown on stocks is expected to be minimal, in light of the global situation.

Outlook

Soybean prices in the U.S. for 1987-88 are expected to be in the range of U.S. $4.70 and $5.00 per bushel, which is, at present, equivalent to between Cdn. $228 and $243 per tonne. No loan rate has been announced as of October 22 for the 1988 crop. If the 1988 loan rate remains at U.S. $4.77 per bushel, the Gramm-Rudman cutback could, if enforced, reduce the loan rate for 1988 to U.S. $4.36 per bushel. Again, if market prices reflected this loan rate, the effect on Ontario oilseed prices would be significant.

As noted above, the 1987-88 Canadian soybean crop, which is grown exclusively in Ontario (at least on a commercial scale) is expected to increase by 14.5 percent from last year. Production is currently estimated at a record 1.1 million tonnes. At that level of output, significantly more Ontario soybeans will likely move into an export position, as compared with what has been the case historically. As a result, Ontario soybean prices will likely be lower in relation to the U.S. in 1987-88 as compared with the historical relationship.

Soybean prices in Ontario will likely average in the Cdn. $225 to $240 per tonne range, unless the Gramm-Rudman Act is implemented.

FRUIT AND VEGETABLES

United States

The 1987 U.S. **apple crop,** estimated at 9.6 billion pounds, is up 22 percent over 1986 and 21 percent over 1985. Washington, Michigan and New York states report increases over 1986 of 16, 64 and 10 percent, respectively. Considerable new acreage of Granny Smith is coming into production in Washington state. Demand for fresh and juice apples is strong, but the size of the crop is expected to push grower prices below 1986-87 levels.

The acreage of 1987 winter, spring and summer fresh vegetables was 3 to 5 percent higher than last year. The long-run upward trend in use of fresh vegetables is reflected in continued strong demand. This, combined with hot, dry growing conditions in the mid-Atlantic and southern states has resulted in strong prices. Fall acreage is expected to be above last year's, following strong summer markets. Early summer prices for U.S. onions were 15 percent above last year's depressed prices. The U.S. onion crop is up over last year, but production estimates for New York state and Michigan are well below last year's, due to weather conditions.

The U.S. 1987 **winter potato crop** is estimated at 2.5 million cwt., compared with 3 million cwt. last year. September 1 holdings of frozen potato products of 675 million pounds were down 8 percent from a year earlier. Close to 80 percent of the holdings were french fries.

U.S. production of **snap beans, green peas, sweet corn and tomatoes** for processing is up 4 percent over last year. California, where nearly 90 percent of the U.S. tomato crop is produced, has above average yields in 1987. Some canners accepted tonnage above contracted levels because of tighter stocks of paste and canned tomatoes compared with recent years. World processing tomato tonnage in 1987 at 14.9 million tonnes is up 3 percent from 1986, but down 6 percent from 1985.

Canada

The Canadian **apple crop** is a mixed bag with respect to quantity and quality and no firm estimates are available at this time. B.C. is expecting an 8.5 million bushel crop of good quality and size. B.C. has a surplus of juice apples in the wrong varieties, mostly Delicious. The exceptionally large Washington crop has a negative effect on B.C. apple prices.

The Quebec August apple crop forecast of 6 million bushels is now down to 4 million bushels, due to small apple sizes. There is a shortage of juice apples.

Nova Scotia is maintaining the earlier 2.8 million bushel forecast. There has been a problem with harvesting labour in Nova Scotia. The price outlook is stronger than in other provinces.

The P.E.I. **potato crop** has been hard hit by dry weather. Yields are below average, quality is questionable and tubers are small. New Brunswick had a fairly good potato season, storages are full and exports to the U.S. are strong.

Quebec has an average size crop of average quality. The western provinces had good potato crops, but are threatened to some extent by the huge crop of baking potatoes in Idaho, which weakened prices.

No official estimates are currently available for potatoes. Generally, prices have been above 1985, but below 1986 levels and are expected to decline further.

Estimates for storage vegetables across Canada are few and official, hence no estimates as to price and availability can be made at this time.

The **Ontario apple harvest** is finishing at the end of October. The most recent production estimate is for

8.2 million bushels, down 1.4 percent from last year and 4.4 percent below the five-year average. The price of juice apples has been set at $77.50 per ton, which is a rate deemed to keep the industry competitive with suppliers of concentrate. The supply of juice apples coming into the processors has not been heavy.

Peach production in Ontario increased 17 percent from 1986 to 33,000 tons of excellent quality fruit. The marketing season was condensed significantly but the crop moved fairly well through the system. Despite the large increase in volume, prices were only down about 6 percent from 1986.

Production of **sour cherries** increased from 4,200 tons in 1986 to nearly 11,000 tons in 1987. Sharply lower prices were a direct result of serious marketing problems in the U.S. and very large crops in both the U.S. and Ontario. Extreme heat during the harvest period resulted in a shortened season and processing capacity could not handle all of the crop. The many problems experienced in 1987, resulted in an estimated 4,500 tons of sours not being processed.

A promising crop of **sweet cherries** was reduced significantly when heavy rains hit during harvest season.

Ontario grape production is estimated to be down 10 percent from 1986. A good growing season pointed to a vintage crop but wet weather at harvest time caused problems with rot and high acidity. Surplus production for future sales is approximately 12,000 to 15,000 tons.

Production of **pears** dropped 15 percent from 1986 but the crop was of good quality with excellent sized fruit. Prices were similar to last year.

Harvesting of **Ontario potatoes** is nearly complete. Yields, while not as high as expected, will probably reach the provincial average. Fresh market prices are weak at $5.50 per cwt. on a packout basis. Ontario is currently facing stiff competition from P.E.I., which has recently lowered the price in an attempt to maintain market share. In the long run, however, Ontario producers can be expected to benefit from the low P.E.I. quality and quantity in 1987. At this time there is little movement of Quebec potatoes into Ontario.

The hearings of the National Potato Marketing Agency have been completed and a report to the federal Minister of Agriculture is expected in a couple of months.

In spite of extreme, hot, dry weather, most processing vegetable crops produced close to average yields. Whole pack tomato production, projected at 3 million cases resulted in 2.5 million cases, slightly higher than last year's 2.2 million. The competition from European tomato production has stabilized.

Production of **tomato juice and paste** in 1987 was about 90 percent of the processors' budgeted pack. Most processors achieved the budgeted pack of sweet corn in spite of problems with mixed maturities and poor recovery rates. Peas, green and wax beans and cucumbers came up short of expectations.

Early estimates indicate an **Ontario onion** crop of 3.4 million 50 pound bags, compared with 2.6 million bags last year and 3.7 million bags in 1985. The crop is of excellent quality and the sizes are above average. Quebec onion production is estimated at 1 million bags, 20 percent below average, with sizes smaller than normal, but quality is excellent.

At the end of October, onion prices paid to the grower at Bradford are approximately $1.00 to $1.50 below last year's $5.50 and $6.00 per bag. Carrot prices are $1.50 per bushel to the grower, well below last year's prices of $3.25 to $3.50 during the same time period.

TOBACCO

Targetted production for the 1987 Ontario flue-cured tobacco crop was 110 million pounds, but favourable weather produced an estimated 125-130 million pound crop. Industry observers also report that the crop is of good quality. Export demand at the 1987 Tobacco Auction, which opened on October 13, 1987, is expected to be better than in recent years. Farm carryover from the 1986 crop was estimated at 3.5 million pounds. The Surplus Removal Program, operated by the Flue-Cured Tobacco Growers' Marketing Board, contains 14.4 million pounds, down from 28 million pounds earlier this year. Sales were mostly made to Egypt (8 million lbs.) and China (3 million lbs.).

On April 23, 1987, the governments of Canada and Ontario announced a three-part, three-year, $30 million Tobacco Assistance Program (TAP), which is designed to assist tobacco farmers in downsizing to a smaller industry. The provinces of Quebec and P.E.I. have similar jointly-funded tobacco adjustment programs.

The acreage reduction part of the program provides grants for half a grower's quota, at the lesser of $3,000 or market prices. A grower must have sold half his quota privately and may receive a maximum of $65,000 under this part of the program. Acreage moved out of production is estimated to be 466 acres with 59 growers participating.

Under the Ontario-sponsored soil maintenance part, grants are available over a three-year period for tobacco land taken out of production, which has been planted to crops such as trees, winter rye, tall fescue, red clover, perennial rye grass and sweet clover.

The third part, is a federal grant to growers who exited the industry and sold their quotas after the February 12, 1986 federal budget, but before the program was announced on May 12, 1987. The grant is limited to $15,000. Both governments are conducting alternate crop development projects as well.

V. LIVESTOCK AND POULTRY

OVERVIEW

The livestock and poultry industry has been subject to some similar and some very different influences. All sectors could benefit from reduced grain and oilseed prices, although dairy less so because dairy farmers often produce much of their own feed. The in-

herent health of the industry has caused different responses. Both beef and hog producers welcomed lower production costs to improve their balance sheets. Poultry producers, on the other hand, could expand as marketing opportunities became available.

The consumer demand for meats and poultry products developed differently. Beef consumption has trended downward since 1981 and will continue to decrease into 1988, now mainly because of lower supplies. Beef prices to producers have changed little since 1981, but producer margins have increased. The price to producers and the retail price of beef have tracked well until mid-1985, after which time the retail price index rose much more than the farm price of steers.

Pork prices have been more volatile than beef prices, due to changing North American supplies. Pork consumption has been virtually unchanged since 1982 and is forecast to stay at the current level into 1988. Hog producers are now expanding their herds, by some 4 percent in Canada and 9 percent in the U.S. to cash in on current high profit margins. Recent changes in U.S. marketings are shown graphically.

Chicken producers have benefited from lower production costs, expanded product range, increased consumer demand and their willingness to produce for the market. Chicken's share of the total meat market has grown from 16.7 percent in 1981 to 21.3 percent this year. Turkey consumption is increasing slowly, but steadily, while egg consumption is decreasing slowly.

Preliminary indications from the proposed Free Trade Agreement are, that if accepted, the global import levels of poultry will increase from their current percent of production to a higher one:

Chicken: 6.3 to 7.5% Turkey: 2.0 to 3.5% Shell Eggs: 0.675 to 1.647%

Price projections for beef, pork, milk, chicken, turkey and eggs at the farm level are shown in field crops section, above.

BEEF

Situation

Ontario cattle prices have gathered momentum throughout 1987. Toronto A1,2 steer prices for September averaged $90/cwt., up from $89/cwt. in August, and $84/cwt. a year ago.

Rising cattle prices have resulted in no payouts in 1987 under the National Tripartite Stabilization Program (NTSP). This program includes separate slaughter cattle and cow-calf plans. Recently, a feeder plan was added to the program. The feeder plan is similar to the slaughter cattle plan, which is based on a gross margin (GM) support level, with quarterly calculation periods. In contrast, the cow-calf plan is based on an indexed moving average price (IMAP) with annual calculation periods.

Higher cattle prices have been driven by reduced beef supplies across Canada and the U.S. Canadian beef supplies for 1987 are expected to fall 6 percent from last year's level, to 0.9 million tonnes. Similarly, U.S. beef supplies are anticipated to reach only 10.6 million tonnes, down 4 percent from a year ago.

In the U.S., higher cattle weight has been instrumental in moderating the declines in beef supplies. The U.S. Dairy Termination Program has also resulted in more dairy cows coming to market. In fact, U.S. dairy cow inventories for June 1, 1987 were 4.6 percent lower than last year's level at 10.4 million head.

The decline in cattle slaughtered has caused cattle prices to be driven up, while feed costs have been driven down by the U.S. Export Enhancement Program and lower loan rates for crops. These two forces have enhanced producer profit margins. Beef producers therefore have been able to consolidate their financial losses which had occurred during the past years of low cattle prices. Producers are now rebuilding beef herds in response to the good returns.

In September, Australia and New Zealand voluntarily agreed to limit beef exports to the U.S. This action was in response to the threat of triggering the introduction of import quotas under the U.S. Meat Import Act. The U.S. beef import quota is set annually and is counter-cyclical to the U.S. beef breeding herds. With U.S. herds down in 1987, the 1988 beef import quota will be expanded. This will eliminate the need for beef export restraints by Australia and New Zealand. In the meantime, Canadian beef producers are concerned these two countries will divert their beef exports to Canada. As a result, the Canadian Cattlemen's Association has requested that the federal government restrict beef imports under the Canadian Import Meat Act.

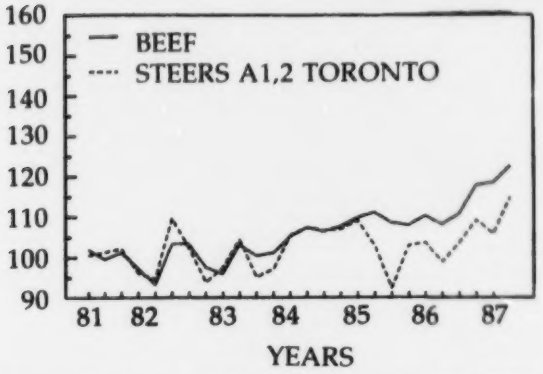
Canadian beef producers are particularly concerned about increased Australian and New Zealand beef imports, displacing Canadian beef to the U.S. Canadian beef producers have recently withstood the test of a U.S. International Trade Commission Section 332 fact-finding study of the Canadian cattle and beef industry. Canadian beef producers are fearful that increased beef exports to the U.S. could rekindle concerns among U.S. beef producers about these exports. These concerns could prompt them to file another complaint against the Canadian cattle and beef industry purportedly damaging their industry.

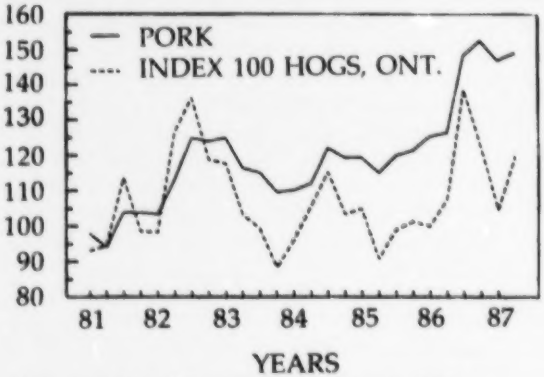
EC Beef and Countervail

Since July 1986, Canadian beef imports from the European Community have been subjected to a $2/kg countervailing duty. The duty was imposed after the Canadian Cattlemen's Association (CCA) brought a case against the EC before the Canadian Import Tribunal. The imposition of a countervailing duty was appealed to the GATT by the EC. On October 16, 1987, the GATT panel announced that it had ruled against the Canadian imposition of the duty. The GATT decision was based on the legal technicality that the CCA, which launched the case, represented cattle producers - not beef producers (i.e. packers).

The GATT decision will become final only if

RETAIL AND FARM LEVEL PRICES, 1981, QI TO 1987, QII, 1981 = 100





unanimously accepted by the 25 member GATT Subsidies and Countervail Committee. If the Committee accepts the GATT decision, then Canada would be required to drop the countervailing duty or face retaliation from the EC. If Canada is forced to drop the countervailing duty, imports of subsidized EC beef could be increased again and have a very damaging impact on Canada's beef industry. However, Canadian beef producers (i.e. packers) could then bring the EC beef import case before the Canadian Trade Tribunal. The GATT report has not yet been released. As a result, the detailed findings of the report and Canada's response are still uncertain.

Outlook

Low beef supplies in 1987, resulted in strong rises in retail beef prices. These higher prices have caused Canadian beef consumption to slide further. Beef supplies for 1988 are expected to fall by an additional 4 percent from 1987 levels to reach 0.86 million tonnes. The lower beef supplies will provide continuing support of producer prices, but will also allow poultry to capture an ever-increasing share of the consumer dollar. The U.S. domestic beef supplies for 1988 are forecasted to be 10.1 million tonnes, down 4.6 percent from 1987. For the next four quarters, Toronto A1,2 steer prices are expected to average between $87 to $93/cwt.

Feeder prices have benefited from the favourable cattle market outlook. As a result, low feed costs and high feeder prices have rewarded cow-calf producers. Feedlot operators, however, can expect profit margins to be squeezed as feeder prices continue to capture the positive market prospects.

HOGS

Situation

Ontario hog prices have been sliding since August of this year. The Ontario Index 100 hog price for September was $193/100 kg, down from $206/100 kg, and $213/100 kg a year ago. The slide in hog prices has been moderated by low frozen pork stocks and lower than anticipated hog marketings in the U.S.

In Canada and the U.S., the number of hogs slaughtered have begun to rise and prices have begun to fall. Canadian hogs slaughtered between January and September, reached 10.3 million head, up 3.4 percent over last year's levels. In recent weeks, U.S. hog slaughter has been increasing, but still lags behind last year's levels of 56.1 million head at 55.4 million head (for the period ending September 26).

Pork exports to the the U.S. and other countries (excluding Japan) have increased in 1987. Canada's total export of pork, between January 4 and September 26, 1987, was 40.3 million pounds (182.8 million kg), up 14 percent over last year's levels.

Rising hog inventories suggest that 1988 hog marketings will be substantially higher than 1987 levels. As of July 1, 1987, Canadian hog inventories on farms were up 4 percent to 9.2 million head, and Ontario's inventories climbed 3 percent, reaching 3.2 million head. On September 1, inventories for the 10 major hog producing states, were estimated at 42.8 million head, up 9 percent from last year. Hogs kept for breeding were up 9 percent, to 5.3 million head. With recent increases in U.S. pigs per litter, the U.S. pig crop is anticipated to register strong increases.

Canadian hog exports to the U.S. in 1987 have fallen well below the 1986 levels owing to the U.S. countervailing duties on Canadian hogs. In the past few months, the U.S. Court of International Trade (CIT) has made a series of rulings relating to appeals of these duties. In all cases, these rulings were favourable to the Canadian industry.

In June 1987, the CIT rejected arguments made by the U.S. National Pork Producers' Council (NPPC) concerning the validity of the International Trade Commission's (ITC) negative ruling on pork. The CIT accepted arguments made by the Canadian Meat Council (CMC) that the production and slaughter of hogs were two separate industries. Currently, there is a countervailing duty on Canadian hog exports to the U.S. of U.S. $9.67/100 kg (U.S. $4.386/cwt.). No countervailing duties have been placed on Canadian pork

exports.

In early August, ruling on an appeal from the Canadian Pork Council (CPC), the CIT was not satisfied that the price flexibility for hogs, which the ITC used to determine injury, was properly calculated. The price flexibility was calculated using information on pork as well as hogs. Finally, in September, the ITC again voted on the ongoing question after reviewing the case records. The vote was tied 2-2. As a result, the countervailing duties on live hogs will remain.

Despite this series of favourable rulings, the Omnibus Trade Act of 1987, which the NPPC supports, could have tremendous implications for the Canadian hog industry. If it becomes law, it will strongly increase the potential that countervailing duties would also be imposed on Canadian pork exports to the U.S.

The recent increase in Canadian pork supplies have not resulted in higher per capita pork consumption. Tight pork supplies in 1986 and earlier in 1987 resulted in high retail prices for pork, causing lower per capita consumption of pork. Poultry has continued to be the main winner from the decline in pork consumption.

Outlook

Hog producers have had several months of high hog prices and low feed costs. It took a while, but hog inventories are now up and increasing. In 1988, Canadian and U.S. supplies will experience strong increases reaching 1.24 million tonnes, up 8 percent, and 7.1 million tonnes, up 11 percent from last year's levels, respectively. The larger pork supplies will drive retail pork prices down and pork consumption will rebound moderately. This process of supply and demand will also drive hog prices down.

Hog prices are expected to decline over the next two years, reaching a low in 1988 of $137/100 kg. However, feed and other input costs will moderate the impact lower hog prices will have on producers' profit margins. If prices fall below the support level for the National Tripartite Stabilization Program, payouts will also be made. As a result, producers' profit margins may not shrink by the total drop in hog prices expected.

DAIRY

Global

During 1986 world milk supplies increased by 1.6 percent relative to 1985. For 1986, 26.2 percent of the milk supplies was produced in the 12 countries comprising the EC, 17.6 and 16.0 percent of the milk supplies were produced in the USSR and U.S., respectively. Canada during 1986 produced 1.8 percent of world milk supplies. Estimates for 1987 indicate a decline in world milk supplies by 1.0 percent.

The U.S. dairy industry during 1987 was still affected by the U.S. Dairy Termination Program introduced in April 1986. Approximately 14,000 dairy producers accounting for 9 percent of U.S. milk production agreed to give up their rights to market milk for a five-year period. U.S. milk production during the first eight months of 1987 declined by 2 percent relative to the same time period in 1986. This decline in supplies, plus increased domestic consumption has reduced U.S. intervention stocks of skim milk powder, butter and cheese by significant amounts. For 1988, milk production estimates by various organizations range from plus 1.3 to 3.5 percent relative to 1987.

In December 1986, the EC announced a reduction in its dairy quotas by 9.5 percent over the next two years. Milk supplies are estimated to decline by 6 percent in 1987 as compared to 1986, with further reductions expected in 1988. These milk supply reductions will reduce the amount of dairy products the EC will have to subsidize to sell into the world market. Combining reduced surplus dairy stocks with a declining U.S. dollar has led to increasing world prices for dairy products. Since 1985, the GATT minimum prices for skim milk powder and whole milk powder have been increased by $225 and $120 U.S. per metric tonne to $825 and $950 per tonne, respectively. This increase in world prices has a positive effect on Canadian milk producers by decreasing both their inquota and overquota levy rates.

Canada

During the 1986-87 dairy year, domestic requirements for industrial milk products increased by 1.0 percent, compared to the 1985-86 dairy year. For the 1986-87 dairy year, Ontario's milk and cream producers utilized 98.8 percent of provincial market share quota (MSQ). Canadian producers utilized 100.3 percent of total MSQ.

Agriculture Canada and the federal government have not as yet made a public announcement with respect to the target returns adjustment formula and its application. Expectations are that this announcement will not be made until January 1988. Consultants for the Ontario Milk Marketing Board recently completed a study on dairy quota values. This study will be made public in the very near future. The Milk Commission of Ontario (MCO) is conducting a review for the Honourable Jack Riddell, Minister of Agriculture and Food on the topic of milk distribution areas for fluid milk products. The MCO is providing an opportunity for organizations to appear before it during November 1987.

The Ontario Milk Marketing Board has a fluid milk formula which it uses as a guideline in setting the price for milk used for beverage purposes (Class 1). Currently, the formula is below the actual Class 1 price. Therefore, the price for Class 1 milk will not likely be increased until at least mid-1988. As mentioned previously, an increase in the target return level for industrial milk shippers will not happen until at least January 1, 1988.

CHICKEN

Situation

The chicken industry continues to be a bright spot

in Ontario and Canadian agriculture. The industry growth started in 1984 and has continued throughout 1987. The global 1987 production quota, initially set at 512 Mkg, was adjusted upward to 515 Mkg, representing a 9.1 percent increase over the 1986 production. The market has absorbed the increased production without affecting the returns in the industry, until recently.

A particularly strong market has persisted throughout the summer. To the end of August, the domestic disappearance of chicken was over 7 percent higher than in the previous year. The average wholesale price for the week of August 29 was $2.25/kg for broilers and $2.33/kg for roasters.

In recent weeks chicken supplies have been abundant in the face of a 15 percent quota increase, while demand has been weakening seasonally. A sharp reduction in chicken sales for Thanksgiving, when consumer demand shifts traditionally to turkey, has contributed to a break in wholesale broiler prices, down to $1.787/kg on Oct. 10. For the last two weeks of October, the producer price for 1.9 kg broilers will be $.99/kg, or 6.8¢/kg below the cost of production formula. These price levels will likely persist until the current bulge is moved through the system. As always, there is some concern that storage stocks may build by year end.

Outlook

For 1988, the initial global quota has been set by the Canadian Chicken Marketing Agency at 538 Mkg or a 4.5 percent increase over 1987. If this production will be reached, it would represent a 40 percent increase since the Agency was formed in 1979. Based on the higher degree of development of the further processing sector in the U.S., there are prospects for the chicken industry in Canada to sustain continued growth for several years, although not at the rate of recent years.

TURKEY

Situation

Turkey production in the first eight months of 1987 was some 9 percent higher than the previous year, and imports were slightly higher. In recent months, storage stocks have been accumulating at a faster rate than in 1986, indicating that total supplies have been adequate to ample.

According to official statistics, turkey disappearance in the first eight months has declined slightly, but this seems to conflict with indications from the marketplace, particularly from the retail sector, of a strong demand for turkey. A rise in wholesale turkey prices and in imports, in September, would also indicate that the demand has been good and supplies not burdensome. The Turkey Agency has raised serious doubts as to the accuracy of storage stock data, especially for an unusually large increase in hen stocks in Ontario, and attributes the disappointing figures for disappearance to this factor. Preliminary indications are that the disappearance for Thanksgiving was good as turkey was featured extensively and at attractive prices.

On the basis of poult placements, the total production for 1987 could exceed the quota of 111.1 Mkg by some 2 Mkg, but this may be avoided by various options including slaughtering at lighter weights (especially for toms), delaying the slaughtering until January 1988, or exporting live birds to the United Stated. (The latter appears an unprofitable and unlikely option due to depressed U.S. prices.)

Outlook

Turkey supplies for the Christmas market should be fully adequate. Prospects as to the disappearance for this year and the level of year-end inventories are clouded by the above mentioned doubts as to the accuracy of storage stock statistics. The most likely occurrence is that overall production for 1987 will increase by 8 percent, disappearance will grow by 6 percent, and year-end inventories will increase by 2 Mkg (to about 13 Mkg) over 1986. There will be pressures for imports of cheap U.S. turkey under the supplementary system this fall, and this may further raise the level of year-end inventories.

As to 1988, the expected increase in beginning inventory plus the increase in the quota (still set at 114.3 Mkg) should ensure adequate supplies to meet market demand. A major and critical question mark is whether the production of heavy toms will be shifted adequately to the first part of the year to fill the demand by further processors at that time, thus preventing the substantial importation of U.S. turkey which has occurred in the past few years. Another aspect of significance is whether a sufficient quantity of toms to be slaughtered in the fourth quarter will be heavy birds and will be packed in canner packs for further processing.

Ample turkey supplies and lower prices of competing meats should keep 1988 turkey prices in check and ensure a further increase in turkey disappearance. This would register a growth in the turkey industry for four consecutive years, due largely to the expansion of the further processing sector.

EGGS

Since the last quota adjustment was made in 1984, basic stability has prevailed in the egg industry in Canada. Egg supplies have generally remained in reasonably good equilibrium with demand. Changes from year to year in production, demand and trade have been rather small and have not exhibited definite and consistent patterns. Overall, however, the 1984 quota adjustment has resulted in more manageable surpluses to table market requirements and in a reduction of costly exports at unprofitable prices.

For 1987, the domestic production of eggs is expected to increase fractionally over 1986. Table egg disappearance, which had shown an encouraging recovery in 1986, will again register a small decline

this year. As a result, surpluses to table market requirements will increase moderately. Domestic sales of surplus eggs to breakers may decline slightly for the second year in a row, after a healthy increase in 1985. Exports of surplus eggs are expected to increase significantly. However, most of the surplus will be processed in Canada for export as egg products, thus supporting (and increasing) the total processing activity of domestic breakers. Egg imports will decline significantly, thanks also to the program implemented with the CEMA support to promote the movement of ungraded eggs from Manitoba to Ontario, which has proven successful in replacing imports of U.S. grade A large eggs, largely coming into Ontario, with Canadian produced eggs.

Since no quota change is anticipated, at least until July of next year, no major change in egg production and marketing patterns is expected in 1988.

Egg prices in Ontario have remained unchanged at 95¢/doz. for grade A large eggs for the fourth consecutive month, including October. Expected lower feed costs in the fall and winter may have an impact on egg prices, but any decline would be of a small magnitude.

P-Z
REGISTRATION